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Ontario

**Ministry of Finance**

# Public Accounts of Ontario

## Financial Statements of Crown Corporations, Boards, Commissions

## 1999-2000

**VOLUME**

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# MINISTERIAL RESPONSIBILITY FOR GOVERNMENT ENTERPRISES, ORGANIZATIONS, TRUSTS & OTHER

- Minister of Agriculture, Food and Rural Affairs
    - Agricorp
- Attorney General
    - Legal Aid Ontario
    - The Public Guardian and Trustee for the Province of Ontario
- Minister of Citizenship, Culture, and Recreation
    - The Centennial Centre of Science and Technology
    - Ontario Educational Communications Authority (TV Ontario)
    - Ontario Trillium Foundation
    - Royal Ontario Museum
- Minister of Consumer and Commercial Relations
    - Liquor Control Board of Ontario
- Minister of Economic Development, Trade and Tourism
    - Metropolitan Toronto Convention Centre Corporation
    - Niagara Parks Commission
    - Ontario Development Corporation
    - Ontario Place Corporation
- Minister of Energy, Science and Technology
    - Hydro One Inc.
    - Independent Electricity Market Operator
    - Ontario Power Generation
- Minister of Environment
    - Ontario Clean Water Agency
- Minister of Finance
    - Deposit Insurance Corporation of Ontario
    - Losses deleted from the accounts
    - Motor Vehicle Accident Claims Fund
    - Ontario Electricity Financial Corporation
    - Ontario Financing Authority
    - Ontario Securities Commission
    - Provincial Judges Pension Fund
    - Revenue remissions
- Minister of Health
    - Cancer Care Ontario
- Minister of Labour
    - Workplace Safety and Insurance Board
- Chair of Management Board of Cabinet (Management Board Secretariat)
    - Ontario Casino Corporation
    - Ontario Lottery Corporation
    - Ontario Pension Board
    - Ontario Realty Corporation
- Minister of Municipal Affairs and Housing
    - Ontario Housing Corporation
- Minister of Natural Resources
    - Algonquin Forestry Authority
- Minister of Northern Development and Mines
    - Northern Ontario Heritage Fund Corporation
- Minister of Transportation
    - Ontario Northland Transportation Commission
    - Toronto Area Transit Operating Authority

# A GUIDE TO PUBLIC ACCOUNTS

## 1. SCOPE OF THE PUBLIC ACCOUNTS

The 1999-2000 Public Accounts of the Province of Ontario comprise the financial statements and three volumes:
Volume 1 contains the Consolidated Revenue Fund schedules and Ministry statements. The Consolidated Revenue Fund reflects the financial activities of the government's ministries on a modified cash basis.
Volume 2 contains the financial statements of significant provincial crown corporations, boards and commissions which are part of the government's reporting entity and other miscellaneous financial statements.
Volume 3 contains the details of expenditure and the Ontario Public Sector salary disclosure.

## 2. A GUIDE TO VOLUME 2 OF THE PUBLIC ACCOUNTS

The financial statements of the selected crown corporations, boards and commissions are for fiscal periods ending within the Province's own fiscal period April 1, 1999 to March 31, 2000. They are presented in the same detail as the approved, audited financial statements and as nearly as possible in the same form. The statements have been presented in the order shown in the Table of Contents. In addition, a listing is provided which groups the crown corporations, boards and commissions by ministerial responsibility.

# ONTARIO PUBLIC SECTOR SALARY DISCLOSURE

The *Public Sector Salary Disclosure Act* requires employers in the public sector to disclose the names, positions, salaries and taxable benefits of employees paid $100,000 or more in the previous calendar year. One of the requirements is to include the information with their annual report or financial statements.

The employees of the following enterprises, organizations, trusts and ministry employees are paid through the Ontario government payroll system. Therefore, any employees paid $100,000 or more in 1999 are listed in the OPS listing in Volume 3 of the Public Accounts:

Algonquin Forestry Authority
Ontario Development Corporation
Ontario Housing Corporation
Ontario Place
Ontario Realty Corporation
Motor Vehicle Accident Claims Fund
Provincial Judges Pension Fund
The Public Guardian and Trustee for the Province of Ontario

The following enterprises, organizations and trusts had no employees who were paid $100,000 or more in 1999:

Northern Ontario Heritage Fund Corporation

For enterprises, organizations and trusts who have employees who were paid $100,000 or more in 1999, the listing required by the Act is included with their financial statements in this volume.

# Government Enterprises

# Algonquin Forestry Authority

**Management's Responsibility for Financial Information**

Management and the Board of Directors are responsible for the financial statements and all other information presented in this Annual Report. The financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on Management's best estimates and judgements.

The Algonquin Forestry Authority is dedicated to the highest standards of integrity in its business. To safeguard the Authority's assets, the Authority has a sound and dynamic set of internal financial controls and procedures that balance benefits and costs. Management has developed and maintains financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information in accordance with the Algonquin Forestry Authority Act.

The Board of Directors ensures that Management fulfills its responsibilities for financial information and internal control. The Board of Directors meets regularly to oversee the financial activities of the Authority and at least annually to review the financial statements and the external auditors' report thereon, and recommends them to the Minister of Natural Resources for approval.

The financial statements have been examined by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

Tim Doyle CA

Tim Doyle CA
Treasurer

C. Corbett

Carl Corbett RPF
General Manager

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Provincial Auditor
of Ontario

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***Auditor's Report***

To the Members, Algonquin Forestry Authority,
and to the Minister of Natural Resources

I have audited the statement of financial position of the Algonquin Forestry Authority as at March 31, 2000 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Toronto, Ontario
June 9, 2000

J.R. McCarter, CA
Assistant Provincial Auditor (Acting)

## Algonquin Forestry Authority
## Statement of Financial Position

| March 31 | 2000 | 1999 |
|---|---|---|
| **Assets** | | |
| Current | | |
| Cash (Note 3) | $ 5,600,191 | $ 5,160,940 |
| Receivables | 1,838,502 | 1,736,834 |
| Due from Consolidated Revenue Fund | - | 162,658 |
| Inventory | 679,472 | 242,503 |
| Prepaids | 2,572 | 2,672 |
| | 8,120,737 | 7,305,607 |
| Capital assets (Note 4) | 1,662,108 | 1,608,266 |
| | $ 9,782,845 | $ 8,913,873 |
| **Liabilities** | | |
| Current | | |
| Payables and accruals | $ 647,852 | $ 331,260 |
| Contractors' performance holdbacks | 29,382 | 24,556 |
| Due to Consolidated Revenue Fund | 210,323 | - |
| | 887,557 | 355,816 |
| Deferred contributions (Note 5) | 54,710 | 54,710 |
| Deferred contributions related to forest renewal activity (Note 6) | 1,183,206 | 1,156,057 |
| | 1,237,916 | 1,210,767 |
| **Net assets** | | |
| Invested in capital assets | 1,662,108 | 1,608,266 |
| Restricted - Forest Renewal Fund (Note 3) | 2,029,960 | 1,850,290 |
| Unrestricted – General Fund | 3,965,304 | 3,888,734 |
| | 7,657,372 | 7,347,290 |
| | $ 9,782,845 | $ 8,913,873 |

On behalf of the Board

Bill Schelf Director Gail Mack Director

See accompanying notes to the financial statements.

## Algonquin Forestry Authority
## Statement of Changes in Net Assets

Year Ended March 31

| | 2000 | | | | 1999 |
|---|---|---|---|---|---|
| | Invested In Capital Assets | Restricted - Forest Renewal Fund | Unrestricted - General Fund | Total | Total |
| Balance, beginning of year | $ 1,608,266 | $ 1,850,290 | $ 3,888,734 | $ 7,347,290 | $6,949,041 |
| Net income (loss) for the year | (418,086) | 179,670 | 548,498 | 310,082 | 398,249 |
| Investment in capital assets | 471,928 | - | (471,928) | - | - |
| Balance, end of year | $ 1,662,108 | $ 2,029,960 | $ 3,965,304 | $7,657,372 | $7,347,290 |

See accompanying notes to the financial statements.

## Algonquin Forestry Authority
## Statement of Operations
Year Ended March 31,

| | General Fund | Forest Renewal Fund | Total 2000 | Total 1999 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Product sales | $ 17,856,082 | $ - | $ 17,856,082 | $ 14,898,095 |
| Standing timber sales | 1,303,707 | - | 1,303,707 | 1,435,045 |
| Forest renewal charges | - | 893,823 | 893,823 | 1,134,665 |
| Other | 514,241 | 149,126 | 663,367 | 677,825 |
| | 19,674,030 | 1,042,949 | 20,716,979 | 18,145,630 |
| **Expenditure** | | | | |
| Direct program costs | 14,211,732 | 649,019 | 14,860,751 | 11,325,527 |
| Crown timber stumpage charges | 3,082,492 | - | 3,082,492 | 4,025,068 |
| Public access road maintenance | 414,537 | - | 414,537 | 366,524 |
| Wood measurement | 143,522 | - | 143,522 | 163,656 |
| Operations planning | 60,787 | - | 60,787 | 116,151 |
| | 17,913,070 | 649,019 | 18,562,089 | 15,996,926 |
| **Operating Income** | 1,760,960 | 393,930 | 2,154,890 | 2,148,704 |
| **Administrative and other** | | | | |
| Salaries and benefits | 921,601 | 181,735 | 1,103,336 | 1,122,246 |
| Depreciation and amortization | 387,542 | 30,544 | 418,086 | 405,167 |
| Office supplies and expenses | 83,440 | 122 | 83,562 | 71,072 |
| Public relations | 70,715 | - | 70,715 | 16,581 |
| Staff travel and training | 45,331 | 11,969 | 57,300 | 42,155 |
| Office rent | 36,856 | 14,826 | 51,682 | 49,217 |
| Directors' allowances and expenses | 26,377 | - | 26,377 | 25,555 |
| Consulting, legal and miscellaneous | 17,540 | - | 17,540 | 2,987 |
| Insurance | 10,602 | 5,608 | 16,210 | 15,231 |
| Interest | - | - | - | 244 |
| | 1,600,004 | 244,804 | 1,844,808 | 1,750,455 |
| **Net Income for the year** | $ 160,956 | $ 149,126 | $ 310,082 | $ 398,249 |

See accompanying notes to the financial statements.

## Algonquin Forestry Authority
## Statement of Cash Flows

| Year Ended March 31 | 2000 | 1999 |
|---|---|---|
| Cash derived from (applied to) | | |
| **Operating** | | |
| Net income for the year: | | |
| General Fund | $ 160,956 | $ 297,889 |
| Forest Renewal Fund | 149,126 | 100,360 |
| Add (deduct): non-cash items | | |
| Depreciation and amortization | 418,086 | 405,167 |
| Gain on sale of capital assets | (15,065) | (9,607) |
| | 713,103 | 793,809 |
| Change in non-cash operating working capital | 155,862 | 119,672 |
| | 868,965 | 913,481 |
| **Financing** | | |
| Deferred contributions | 27,149 | (65,814) |
| **Investing** | | |
| Acquisition of capital assets | (471,928) | (391,669) |
| Proceeds on sale of capital assets | 15,065 | 9,607 |
| | (456,863) | (382,062) |
| Increase in cash | 439,251 | 465,605 |
| Cash, beginning of year | 5,160,940 | 4,695,335 |
| Cash, end of year | $ 5,600,191 | $ 5,160,940 |

See accompanying notes to the financial statements.

# Algonquin Forestry Authority
## Notes to the Financial Statements
March 31, 2000

### 1. Purpose of the organization

The Authority is responsible for forest management in Algonquin Provincial Park. The Authority is a Crown Agency which was established by the Ontario Government on January 4, 1975 under the Algonquin Forestry Authority Act, 1974. The Authority is exempt from income taxes under the Income Tax Act.

### 2. Significant accounting policies

**Fund accounting**

The General Fund accounts for the Authority's profit generating and administrative activities. The Forest Renewal Fund accounts for the forest management activities, including silvicultural work.

**Revenue recognition**

The Authority follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

Revenue from product and standing timber sales and forest renewal charges are recognized when the wood is delivered. Consulting and other income is recognized as revenue when earned.

**Inventories**

Inventories are valued on the first in, first out basis at the lower of cost or net realizable value.

**Capital assets**

Capital assets are recorded at cost. Depreciation is provided on a straight-line basis, using rates of 10% per annum for furniture, fixtures, technical equipment, bridges, buildings and leasehold improvements, 20% per annum for data processing equipment and 33 1/3% per annum for automotive equipment. The cost of capital roads is amortized over the estimated number of operating seasons for which the roads are to be used, with a maximum amortization period of 10 years. Forest renewal assets are depreciated and amortized at the same rates as the assets mentioned above.

## Algonquin Forestry Authority
## Notes to the Financial Statements
March 31, 2000

### 3. Forest Renewal Fund

Effective April 1, 1997, the Authority entered into a 20 year agreement with the Ministry of Natural Resources to perform forest management activities, including silvicultural work. Funding, on a cost recovery basis, for these activities is derived from stumpage charges levied under the Crown Forest Sustainability Act.

The agreement also provided for a transfer of $1,500,000 from unrestricted net assets to the Forest Renewal Fund, which took place during 1998. The Authority is required to maintain, at a minimum, this amount in the Forest Renewal Fund.

### 4. Capital assets

| | | | 2000 | 1999 |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Book Value | Net Book Value |
| Furniture and fixtures | $ 97,520 | $ 59,934 | $ 37,586 | $ 29,482 |
| Data processing equipment | 168,952 | 135,449 | 33,503 | 35,738 |
| Bridges and buildings | 38,679 | 23,474 | 15,205 | 17,242 |
| Technical equipment | 196,039 | 181,254 | 14,785 | 22,117 |
| Automotive equipment | 280,019 | 218,363 | 61,656 | 68,342 |
| Capital roads | 4,308,713 | 2,858,206 | 1,450,507 | 1,381,831 |
| Leasehold improvements | 38,326 | 31,290 | 7,036 | 8,273 |
| Forest renewal assets | 430,299 | 388,469 | 41,830 | 45,241 |
| | $ 5,558,547 | $ 3,896,439 | $1,662,108 | $ 1,608,266 |

### 5. Deferred contributions

Deferred contributions represent unspent resources externally restricted for public access road maintenance received from the Ministry of Natural Resources in the current period and which relate to expenses of future periods. Changes in the deferred contributions balance are as follows:

| | 2000 | 1999 |
|---|---|---|
| Beginning balance | $ 54,710 | $ 372,736 |
| Add: amount received in the year | 380,000 | 49,345 |
| Less: amount recognized as revenue in the year | (380,000) | (367,371) |
| Ending balance | $ 54,710 | $ 54,710 |

## Algonquin Forestry Authority
## Notes to the Financial Statements
March 31, 2000

### 6. Deferred contributions related to forest renewal activity

Deferred contributions related to forest renewal activity represent unspent resources externally restricted by the Ministry of Natural Resources for Forest Renewal Fund activities. They consist of funds from Forest Renewal charges billed to customers, received in the current period, that relate to future periods. Changes in the deferred contributions balance are as follows:

| | 2000 | 1999 |
|---|---|---|
| Beginning balance | $ 1,156,057 | $ 903,845 |
| Add: amount received in the year | 920,972 | 1,386,877 |
| Less: amount recognized as revenue in the year | (893,823) | (1,134,665) |
| Ending balance | $ 1,183,206 | $ 1,156,057 |

### 7. Pension plan

The Authority provides pension benefits for all its full-time employees through participation in the Public Service Pension Fund (PSPF) established by the Province of Ontario.

The Authority's contributions related to the pension plan for the year were $75,750 (1999 - $75,871) and are included in salaries and benefits in the Statement of Operations.

### 8. Remuneration of appointments

Total remuneration of the Board members of the Authority was approximately $9,700 during the fiscal year (1999 - $11,700).

### 9. Comparative figures

Certain of the figures presented for comparative purposes have been reclassified to conform to the presentation adopted for the current year.

## HYDRO ONE INC.

### Management's report

The accompanying Consolidated Financial Statements of Hydro One Inc. (Hydro One or the Company) are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada. Hydro One applies accounting principles appropriate to its circumstances. The significant accounting policies followed by the Company are described in the summary of significant accounting policies contained in Note 2 to the Consolidated Financial Statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The Consolidated Financial Statements have been properly prepared within reasonable limits of materiality and in light of information available up to March 31, 2000.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safeguarded and that reliable financial information was available on a timely basis. The system included formal policies and procedures and an organizational structure that provided for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluated the effectiveness of these internal controls on an ongoing basis and reported its findings to management and the Audit and Finance Committee of the Hydro One Board of Directors.

The Consolidated Financial Statements have been examined by Ernst & Young LLP, independent external auditors appointed by the Hydro One Board of Directors. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with generally accepted accounting principles. The Auditors' Report, which appears on page 35, outlines the scope of their examination and their opinion.

On March 31, 1999, Ontario Hydro ceased operations. Ontario Hydro's management was responsible for the financial statements of Ontario Hydro for the three months ended March 31, 1999, and year ended December 31, 1998, as set forth in Ontario Hydro's Final Annual Report for the period from January 1, 1998, to March 31, 1999.

As at April 1, 1999, Hydro One became operational under the name of Ontario Hydro Services Company Inc. (OHSC) and the OHSC Board of Directors, through its Audit and Finance Committee, was responsible for ensuring that OHSC's management fulfilled its responsibilities for financial reporting and internal controls. The Audit and Finance Committee of OHSC met periodically with management, the internal auditors and the external auditors to satisfy itself that each group had properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The external auditors had direct and full access to the Audit and Finance Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of the financial reporting and the effectiveness of the system of internal controls. In May 2000, the company name changed to Hydro One Inc.

On behalf of Hydro One Inc.'s Management:

| | |
|---|---|
| Eleanor Clitheroe | Malen Ng |
| **Eleanor R. Clitheroe**<br>President and Chief Executive Officer | **Malen S. Ng**<br>Executive Vice President and Chief Financial Officer |

March 31, 2000

## AUDITOR'S REPORT

To the Directors of
Hydro One Inc.:

We have audited the consolidated balance sheet of Hydro One Inc., formerly Ontario Hydro Services Company Inc. (the "Corporation"), as at December 31, 1999 and the balance sheet of the electricity transmission, distribution and energy services businesses of Ontario Hydro (the "Acquired Businesses") as at December 31, 1998, the combined consolidated statements of operations, shareholder's equity and cash flows of the Corporation and the Acquired Businesses for the year ended December 31, 1999, the consolidated statements of operations, shareholder's equity and cash flows of the Corporation for the nine months ended December 31, 1999, and the statements of operations, shareholder's equity and cash flows of the Acquired Businesses for the three months ended March 31, 1999 and the years ended December 31, 1998 and 1997. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999, the financial position of the Acquired Businesses as at December 31, 1998, the combined results of operations and cash flows of the Corporation and the Acquired Businesses for the year ended December 31, 1999, the results of operations and cash flows of the Corporation for the nine months ended December 31, 1999 and the results of operations and cash flows of the Acquired Businesses for the three months ended March 31, 1999 and the years ended December 31, 1998 and 1997 in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

Toronto, Canada
March 31, 2000

ERNST & YOUNG LLP
Chartered Accountants

# HYDRO ONE INC.
## CONSOLIDATED BALANCE SHEETS
(Canadian dollars in millions)

| | Acquired Businesses | | | | Combined |
|---|---|---|---|---|---|
| | Year ended December 31, 1997 | Year ended December 31, 1998 | Three Months ended March 31, 1999 | Nine Months ended December 31, 1999 | Year ended December 31, 1999 |
| **Revenues** | | | | | |
| Transmission *(Note 13)* | 1,095 | 1,178 | 305 | 932 | 1,237 |
| Distribution (including retail) *(Note 13)* | 1,846 | 1,746 | 518 | 1,298 | 1,816 |
| Other | 158 | 124 | 27 | 45 | 72 |
| | 3,099 | 3,048 | 850 | 2,275 | 3,125 |
| **Costs** | | | | | |
| Operation, maintenance and administration *(Note 4)* | 706 | 723 | 194 | 669 | 863 |
| Purchased power *(Note 13)* | 1,250 | 1,165 | 277 | 662 | 939 |
| Depreciation and amortization *(Note 5)* | 302 | 300 | 75 | 267 | 342 |
| Transitional cost adjustment *(Note 6)* | — | — | 55 | — | 55 |
| Provincial debt guarantee fee *(Note 13)* | 32 | 31 | 8 | — | 8 |
| Deferred pension asset *(Note 15)* | — | (204) | — | — | — |
| | 2,290 | 2,015 | 609 | 1,598 | 2,207 |
| **Other income** | | | | | |
| Gain on sale of investment *(Note 7)* | — | — | — | 32 | 32 |
| Income before financing charges and provision for payments in lieu of corporate income taxes | 809 | 1,033 | 241 | 709 | 950 |
| Financing charges *(Notes 8 and 13)* | 584 | 559 | 131 | 250 | 381 |
| Income before provision for payments in lieu of corporate income taxes | 225 | 474 | 110 | 459 | 569 |
| Provision for payments in lieu of corporate income taxes *(Notes 9 and 13)* | — | — | — | 194 | 194 |
| Net income | 225 | 474 | 110 | 265 | 375 |

*See accompanying notes to financial statements*
*(including Note 2 - Significant Accounting Policies, which describes the basis of presentation)*

| | Acquired Businesses<br>As at December 31,<br>1998 | <br><br>1999 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and temporary investments | 44 | 468 |
| Accounts receivable (net of allowance for doubtful accounts 1998: $9, 1999: $9) | 398 | 536 |
| Materials and supplies | 65 | 81 |
| | 507 | 1,085 |
| Fixed assets *(Note 10)* | | |
| Fixed assets in service | 12,044 | 11,907 |
| Less: accumulated depreciation | 3,828 | 3,848 |
| | 8,216 | 8,059 |
| Construction in progress | 167 | 300 |
| | 8,383 | 8,359 |
| Other long-term assets | | |
| Other post-retirement and post-employment benefits asset *(Note 15)* | — | 377 |
| Long-term accounts receivable and other assets | 69 | 28 |
| Deferred debt costs | 252 | — |
| Deferred pension asset *(Note 15)* | 224 | 241 |
| | 545 | 646 |
| **TOTAL ASSETS** | 9,345 | 10,090 |

*See accompanying notes to financial statements*
*(including Note 2 —Significant Accounting Policies, which describes the basis of presentation)*

## HYDRO ONE INC.
## CONSOLIDATED BALANCE SHEETS (Continued)
**(Canadian dollars in millions)**

| | Acquired Businesses | |
|---|---|---|
| | As at December 31, | |
| | 1998 | 1999 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Bank indebtedness | 5 | — |
| Accounts payable and accrued charges | 260 | 403 |
| Short-term notes payable *(Note 11)* | 563 | — |
| Accrued interest | 137 | 72 |
| Long-term debt payable within one year *(Note 11)* | 491 | 1,399 |
| | 1,456 | 1,874 |
| Long-term debt *(Note 11)* | 5,128 | 3,446 |
| Other long-term liabilities | | |
| Other post-retirement and post-employment benefits *(Note 15)* | 305 | 453 |
| Long-term accounts payable and accrued charges | 115 | 52 |
| Regulatory liability *(Note 15)* | — | 241 |
| | 420 | 746 |
| Total liabilities | 7,004 | 6,066 |
| Contingencies and commitments *(Notes 16 and 17)* | | |
| **SHAREHOLDER'S EQUITY** | | |
| Shares to be issued: | | |
| Preferred shares *(Notes 3 and 18)* | — | 323 |
| Common shares *(Notes 3 and 18)* | — | 3,436 |
| Retained earnings | 2,431 | 94 |
| Dividends to be paid *(Note 18)* | — | 171 |
| Total shareholder's equity | 2,431 | 4,024 |
| **TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY** | 9,435 | 10,090 |

On behalf of the Board,

SIR GRAHAM DAY
Chairman of the Board of Directors

ELEANOR R. CLITHEROE
Director, President and Chief Executive Officer

*See accompanying notes to financial statements*
*(including Note 2 — Significant Accounting Policies, which describes the basis of presentation)*

Excess of assets over liabilities of the Acquired Businesses

| | |
|---|---|
| **1997** | |
| Excess of assets over liabilities of the Acquired Businesses, January 1 | 2,022 |
| Net income, for the year ended December 31 | 225 |
| Less: Adjustment for other post-retirement and post-employment benefits *(Note 15)* | (182) |
| Excess of assets over liabilities of the Acquired Businesses, December 31 | 2,065 |
| **1998** | |
| Excess of assets over liabilities of the Acquired Businesses, January 1 | 2,065 |
| Net income, for the year ended December 31 | 474 |
| Less: Adjustment for other post-retirement and post-employment benefits *(Note 15)* | (108) |
| Excess of assets over liabilities of the Acquired Businesses, December 31 | 2,431 |
| **1999** | |
| Excess of assets over liabilities of the Acquired Businesses, January 1 | 2,431 |
| Net income, for the three months ended March 31 | 110 |
| Net refunds on annexation by municipalities *(Note 10)* | (25) |
| Net excess of assets over liabilities of the Acquired Businesses, March 31 | 2,516 |
| Capitalization of Hydro One Inc., April 1 | |
| Shares to be issued: | |
| Preferred shares *(Notes 3 and 18)* | 323 |
| Common shares *(Notes 3 and 18)* | 3,436 |
| | 3,759 |
| Net income, for the nine months ended December 31 | 265 |
| Less: Dividends to be paid *(Note 18)* | (171) |
| | 94 |
| | 3,853 |
| Dividends to be paid *(Note 18)* | 171 |
| **Total shareholder's equity** | 4,024 |

*See accompanying notes to financial statements*
*(including Note 2 — Significant Accounting Policies, which describes the basis of presentation)*

## HYDRO ONE INC.
## CONSOLIDATED STATEMENTS OF CASH FLOWS
**(Canadian dollars in millions)**

| | Acquired Businesses | | | | Combined |
|---|---|---|---|---|---|
| | Year ended December 31, 1997 | Year ended December 31, 1998 | Three Months ended March 31, 1999 | Nine Months ended December 31, 1999 | Year ended December 31, 1999 |
| Operating activities | | | | | |
| Net income | 225 | 474 | 110 | 265 | 375 |
| Adjustments for non-cash items: | | | | | |
| Depreciation and amortization (net of removal costs) *(Note 5)* | 266 | 276 | 71 | 253 | 324 |
| Transitional cost adjustment | — | — | 55 | — | 55 |
| Deferred pension asset | — | (204) | — | — | — |
| Gain on sale of investment | — | — | — | (32) | (32) |
| Other | 47 | 34 | 9 | (18) | (9) |
| | 538 | 580 | 245 | 468 | 713 |
| Changes in non-cash balances related to operations (*Note 14)* | 97 | (60) | 38 | 43 | 81 |
| Cash provided by operations | 635 | 520 | 283 | 511 | 794 |
| Financing activities | | | | | |
| Net change in debt for long-term financing | (226) | (98) | (168) | — | (168) |
| Investing activities | | | | | |
| Fixed assets | (289) | (383) | (94) | (389) | (483) |
| Proceeds on disposal of fixed assets and investments | — | — | — | 245 | 245 |
| Other assets | (4) | — | (8) | 49 | 41 |
| Cash used in investing activities | (293) | (383) | (102) | (95) | (197) |
| Net change in cash and cash equivalents | 116 | 39 | 13 | 416 | 429 |
| Cash and cash equivalents at beginning of period | (116) | — | 39 | 52 | 39 |
| Cash and cash equivalents at end of period *(Note 14)* | — | 39 | 52 | 468 | 468 |

*See accompanying notes to financial statements*
*(including Note 2 —Significant Accounting Policies, which describes the basis of presentation)*

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Canadian dollars in millions)

## 1. INCORPORATION AND COMMENCEMENT OF OPERATIONS

Hydro One Inc. (the "Corporation" and, together with its subsidiaries, "Hydro One") was incorporated on December 1, 1998 under the *Business Corporations Act* (Ontario) and issued 10 common shares for nominal consideration, and is wholly owned by the Province of Ontario (the "Province"). As part of the reorganization of Ontario Hydro under the *Electricity Act, 1998* and the related restructuring of the electricity industry in Ontario, Hydro One acquired, and assumed certain assets, liabilities, rights and obligations of the electricity transmission, distribution and energy services businesses of Ontario Hydro (the "Acquired Businesses") as of April 1, 1999, and commenced operations on that date. In exchange, the Corporation issued debt and an additional promissory note (see Note 3). The Corporation thereby became an electricity transmission, distribution and energy services holding company operating under the authority of the *Electricity Act, 1998.*

The principal business of Hydro One is the transmission and distribution of electricity to customers within Ontario and is regulated by the Ontario Energy Board.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### *Basis of consolidation*

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries: Hydro One Networks Inc., Ontario Hydro Energy Inc., Hydro One Remote Communities Inc., Hydro One Markets Inc., Hydro One Telecom Inc., Ontario Hydro Delivery Services Company Inc. and Ontario Hydro International Inc.

### *Basis of accounting*

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") and conform with accounting principles generally accepted in the United States ("U.S. GAAP"), except as disclosed in Note 20.

The financial position, results of operations and cash flows presented in these consolidated financial statements as at dates and for periods prior to April 1, 1999 represent all assets, liabilities, rights and obligations of Ontario Hydro pertaining to the Acquired Businesses now conducted by Hydro One. These amounts have been recorded in Hydro One's consolidated financial statements on the same basis and in the same periods as originally recorded by Ontario Hydro among its successor corporations. These financial statements, prior to April 1, 1999, have been prepared primarily through specific identification of assets, liabilities (other than debt), revenues and expenses relating to such businesses, but also through an allocation of certain common financial statement accounts and items of Ontario Hydro. In particular, a portion of Ontario Hydro's revenues and debt, and a corresponding portion of related interest and other financial expenses, have been notionally allocated to Hydro One.

### *Rate-setting*

The *Ontario Energy Board Act, 1998* gave the Ontario Energy Board increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity consumers, and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. In its capacity to approve or fix rates, the Ontario Energy Board has the authority to specify regulatory treatments that may result in accounting treatments that differ from Canadian GAAP for enterprises operating in a non-rate-regulated environment.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prior to April 1, 1999, Ontario Hydro was governed by the *Power Corporation Act*, which provided it with broad powers to generate, supply and deliver electricity throughout Ontario. Under the *Power Corporation Act*, Ontario Hydro's Board of Directors was responsible for setting wholesale and retail electricity rates charged to Ontario Hydro's customers and regulating the rates that could be charged by municipal electricity utilities to their retail customers and had the authority, for rate-setting purposes, to specify regulatory treatments that may result in accounting treatments that differ from Canadian GAAP for enterprises operating in a non-rate-regulated environment.

The Ontario Energy Board issued, and the Minister of Energy, Science and Technology approved, transitional rate orders for Hydro One effective April 1, 1999. As a result of these rate orders, the following accounting treatments, which differ from Canadian GAAP for enterprises operating in a non-rate-regulated environment, apply to the regulated businesses of Hydro One:

- pension costs are recorded in results of operations when employer contributions are paid to the pension fund; and
- payments in lieu of corporate income taxes are recorded in results of operations on the taxes payable basis.

Under Canadian GAAP for enterprises operating in a non-rate-regulated environment, pension costs would be recorded in results of operations on an accrual basis and payments in lieu of corporate income taxes would be recorded in results of operations using the income tax allocation method.

The Ontario Energy Board has allowed for the recovery of other post-retirement and post-employment benefits in the revenue requirement on an accrual basis, including the recovery of past service costs which gives rise to a regulatory asset.

In addition, the following accounting treatments were approved by Ontario Hydro's Board of Directors in its rate-setting capacity and apply to amounts recorded prior to April 1, 1999:

- discounts and premiums arising from the acquisition of debt prior to maturity were deferred; and
- foreign exchange gains and losses on U.S. dollar-denominated short-term financing used to replace U.S. dollar-denominated long-term debt redeemed prior to maturity were deferred.

Under Canadian GAAP for enterprises operating in a non-rate-regulated environment, these amounts would have been included as gains or losses of the period in which they arose.

***Revenue recognition and allocation***

The transitional rate orders issued by the Ontario Energy Board effective April 1, 1999 approved the transmission and distribution revenue requirements for 1999 and 2000, which are designed to permit these regulated businesses to recover their allowed costs and earn a forecasted annual rate of return of 9.35% for 1999 on average common equity during the year deemed, for regulatory purposes, to be allocated to such businesses. For 2000, the Ontario Energy Board adjusted the rate of return to 9.88% to reflect higher forecasted interest rates for that year. Although Hydro One did not commence operations as a stand-alone enterprise separate from Ontario Hydro until April 1, 1999, the transitional rate orders formed the basis of revenue recognition for the three months ended March 31, 1999, consistent with the draft revenue allocation agreement to be entered into among the successor corporations.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Wholesale customers in Ontario have traditionally been billed on a bundled basis, under which the billed amount aggregated the generation and transmission charges for the provision of electricity. Retail rates are also essentially bundled and set similarly to wholesale rates. Until the creation of competitive wholesale and retail electricity markets ("Open Access"), electricity customers will continue to pay bundled rates for electricity. Revenues are being collected and allocated to the successor corporations of Ontario Hydro consistent with the draft revenue allocation agreement to be entered into among such corporations. This draft agreement incorporates the revenue requirements approved in the transitional rate orders issued by the Ontario Energy Board. Prior to 1999, transmission revenue was allocated based on an internal mechanism used by Ontario Hydro. The annual transmission revenue requirement was determined primarily based on an estimate of the planned cost components and a specified rate of return on assets.

Distribution (including retail) revenue represents actual, rather than allocated, revenues attributable to the sale and delivery of electricity, and is recognized as power is delivered to customers. Because customer meters are generally read on a quarterly basis, it is necessary to estimate the monthly revenue for the period based on wholesale power purchases. These estimates are reconciled to actual customer consumption on a regular basis.

Distribution (including retail) revenue also includes an amount relating to rate protection for rural residential customers. The rural rate protection program that had been in effect since 1982 was repealed on April 1, 1999 and replaced with a comparable regime for rural rate protection under the *Ontario Energy Board Act, 1998*. Under this Act, in approving electricity rates for a distributor that delivers electricity to rural residential consumers, the Ontario Energy Board is required to provide rate protection for prescribed classes of consumers by reducing the electricity rates that would otherwise apply so that the weighted average rural bill does not exceed the weighted average municipal bill by more than 15%.

#### *Corporate income and capital taxes*

Prior to April 1, 1999, Hydro One's business was effectively carried out as a business unit of Ontario Hydro, which was exempt from corporate income and capital taxes.

Under the *Electricity Act, 1998*, Hydro One is required to make payments in lieu of corporate taxes to Ontario Electricity Financial Corporation, commencing April 1, 1999. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario) as modified by the *Electricity Act, 1998* and related regulations.

Hydro One provides for payments in lieu of corporate income taxes relating to its regulated businesses using the taxes payable method as directed by the Ontario Energy Board. Under the taxes payable method, no provisions are made for future income taxes as a result of differences in timing between the treatment of various income and expenditure items for income tax and accounting purposes. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the Ontario Energy Board and recovered from the customers of Hydro One at that time.

#### *Materials and supplies*

Materials and supplies represent inventories of spare parts and supplies acquired for internal construction or consumption. These assets are carried at the lower of average cost and replacement cost.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Fixed assets***

Fixed assets are capitalized at cost, which comprises materials, labour, engineering costs, overheads, depreciation on service equipment, and interest applicable to capital construction activities.

Fixed assets in service consist of transmission and transformation, distribution (including retail), communication, and administration and service assets. These asset categories are described below:

*Transmission*

Transmission assets include assets used for the transmission of high-voltage electricity, such as transmission lines, support structures, foundations, insulators, connecting hardware, and grounding systems, and assets used to step up the voltage of electricity from generating stations for transmission and to step down voltages for distribution, such as transformers, circuit breakers and switches.

*Distribution (including retail)*

Distribution (including retail) assets comprise assets related to the distribution of low-voltage electricity, including lines, poles, switches, transformers, protective devices and metering systems. Also included in this class are street lighting and water heater assets.

*Communication*

Communication assets include the microwave radio system, optical ground wire, towers, telephone equipment and associated buildings.

*Administration and service*

Administration and service assets include administrative buildings, major computer systems, personal computers, transport and work equipment, tools and vehicles.

***Construction in progress***

Construction in progress comprises fixed assets under construction, future use assets and development costs associated with specific facilities.

Interest is capitalized on fixed assets under construction at rates which approximate the average cost of all long-term funds borrowed (1999 — 7.9%, 1998 — 9.4%, 1997 — 9.6%).

***Impairment of fixed assets***

In the event that facts and circumstances indicate that a fixed asset may be impaired, an evaluation of recoverability is performed. For purposes of such an evaluation, the estimated future undiscounted cash flows associated with the fixed asset are compared to the asset's carrying amount to determine if a write-down is required.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Depreciation*

The capital costs of fixed assets are depreciated on a straight-line basis, except for transport and work equipment and personal computers, which are depreciated on a declining balance basis.

Depreciation rates for the various classes of assets are based on their estimated service lives. The estimated service lives of assets in major classes are:

| | Estimated service lives | |
|---|---|---|
| Class | Range | Average |
| Transmission | 12-100 years | 51 |
| Distribution (including retail) | 15-55 years | 41 |
| Communication | 7-40 years | 22 |
| Administration and service | 5-50 years | 38 |

Administration offices and buildings are depreciated over 50 years. Service equipment and leasehold improvements are depreciated over a period ranging between five and ten years. The cost of normal fixed asset retirements is charged to accumulated depreciation, with no gain or loss reflected in operations. Gains and losses on sales of fixed assets and losses on premature retirements are charged to results of operations as adjustments to depreciation expense. Depreciation expense also includes the costs of removing fixed assets.

The estimated service lives of fixed assets are subject to periodic review. Any changes arising out of such a review are implemented on a remaining service life basis from the year the changes can first be reflected in rates.

### *Allocation of debt and financing charges*

For the purpose of preparing historical financial statements, the debt, related derivatives and debt costs of Ontario Hydro were notionally allocated to Hydro One and the other successor corporations for the period prior to April 1, 1999. The debt of Ontario Hydro, and related derivative financial instruments used to hedge interest and foreign exchange rate risks associated with such debt, were issued or incurred for general purposes and were not specifically identified with particular assets or businesses of Hydro One. In addition, none of Ontario Hydro's debt and related derivatives has been assumed by Hydro One as part of the reorganization of Ontario Hydro.

Ontario Hydro began maintaining internal accounting records on a separate business unit basis in late 1995. At that time, Ontario Hydro's equity, or accumulated retained earnings, was allocated to its various business units, including the separate businesses of Hydro One. The proportion of equity of Ontario Hydro allocated to each business unit was the same as the proportion that the assets of the business unit represented of the total assets of Ontario Hydro. The equity, or "excess of assets over liabilities", of each of Hydro One's separate businesses as at a particular date includes the amount originally allocated by Ontario Hydro in 1995, plus the amount of net income or loss of the separate businesses for the accounting period ending on that date.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Ontario Hydro's debt was notionally allocated to Hydro One based on a formula: allocated debt is equal to the total assets of each of Hydro One's businesses, less the sum of liabilities (other than debt) and excess of assets over liabilities of such businesses.

Financing charges (consisting of interest, realized and unrealized foreign exchange gains and losses, and realized and unrealized foreign exchange and interest rate hedging gains and losses) were allocated to Hydro One based on its proportion of allocated Ontario Hydro debt.

#### *Foreign currency translation*

Current monetary assets and liabilities in foreign currencies are translated to Canadian currency at year-end rates of exchange and the resulting exchange gains or losses are credited or charged to results of operations.

The following accounting treatments applied to the Ontario Hydro debt notionally allocated to Hydro One:

- long-term debt payable in foreign currencies was translated to Canadian currency at year-end rates of exchange and resulting unrealized exchange gains or losses were deferred and amortized on an annuity basis over the remaining life of the related debt;
- foreign exchange gains or losses on hedges of long-term debt payable in foreign currencies were deferred and amortized to results of operations on an annuity basis in the periods the hedges provided benefit; and
- foreign exchange gains or losses on early redemption of long-term debt, including subsequent gains and losses on short-term replacement financing, were deferred and included in deferred debt costs if the exposure in the foreign currency of the redeemed debt was continued by refinancing the redeemed debt in the same currency. These deferred gains or losses were amortized on an annuity basis over the period to the original maturity date of the redeemed debt. If the foreign currency exposure was reduced as a result of the early redemption of debt, the resulting foreign exchange gains or losses related to the redeemed debt were credited or charged to results of operations.

#### *Deferred debt costs*

The following accounting treatments applied to the Ontario Hydro debt notionally allocated to Hydro One:

- discounts or premiums arising from the issuance of debt were amortized over the period to maturity of the debt on an annuity basis when the term of the debt exceeded one year and on a straight-line basis when the term was one year or less;
- discounts or premiums on debt acquired prior to the date of maturity were amortized on an annuity basis over the period from the acquisition date to the original maturity date of the debt; and
- discounts or premiums on foreign currency hedges were credited or charged to results of operations on an annuity basis over the terms of the individual hedges.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Pension plan*

Hydro One established its own pension plan on January 1, 2000. Until that date, employees and pensioners continued as members of the Ontario Electricity Financial Corporation Pension Plan ("OEFC Pension Plan"), formerly the Ontario Hydro Pension and Insurance Plan. The transfer of assets and liabilities from the OEFC Pension Plan to the successor corporation pension plans, including the Hydro One pension plan is expected in mid-2000 and is subject to regulatory approval. The information presented in these financial statements for the period commencing on April 1, 1999 has been derived from the OEFC Pension Plan and is based upon Hydro One's proportionate share of the OEFC Pension Plan's assets and liabilities. For the period prior to April 1999, such information is based upon Hydro One's proportionate share of Ontario Hydro's payroll.

The pension plan is a contributory, defined benefit plan covering all regular employees of Hydro One. Pension costs are recorded in results of operations when employer contributions are paid to the pension fund in accordance with the transitional rate orders approved by the Ontario Energy Board. The present value of the accrued pension benefit obligation is actuarially determined using the projected benefit method prorated on services and based on assumptions that reflect management's best estimates. Pension plan assets are valued using current fair values.

### *Other post-retirement and post-employment benefits*

In addition to pension benefits, Hydro One provides other post-retirement benefits ("OPRB") such as group life insurance and health-care benefits and other post-employment benefits ("OPEB") such as workers' compensation benefits and long-term disability benefits to qualifying employees during extended absences from work due to sickness or injury.

OPRB and OPEB costs are recorded on an accrual basis. Costs are actuarially determined using the projected benefit method and based on assumptions that reflect management's best estimates. OPRB costs are pro-rated on service. OPRB past service costs and actuarial gains and losses are amortized over the average remaining service period of active employees. OPEB costs are accrued when the event occurs that gives rise to the obligation on the part of the Corporation. OPEB past service costs and actuarial gains and losses are recognized when they occur.

On December 31, 1998 the rate used to discount future benefits was changed from a long-term average rate to a current market settlement rate and the resulting increase in OPRB and OPEB liabilities of $108 million was charged to shareholder's equity.

OPRB and OPEB costs have been included in rates on a basis consistent with the related accounting treatment.

### *Applications software and Year 2000 expenditures*

Hydro One capitalizes major applications software acquisition costs when future benefit is reasonably assured. Expenditures incurred to address the Year 2000 issue are charged to results of operations as incurred, unless existing assets are replaced with new versions or with completely new systems. In such cases, the Year 2000 expenditures are capitalized consistent with the accounting for any acquisition project.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Use of estimates*

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the year. Actual results could differ from the estimates.

### 3. REORGANIZATION OF ONTARIO HYDRO

On November 7, 1998, the *Electricity Act, 1998*, was enacted by the Province. This Act reorganized Ontario Hydro into separate successor corporations, which commenced operations on April 1, 1999. In connection with the reorganization of Ontario Hydro, four successor entities were created in addition to the Corporation. Ontario Power Generation Inc. (together with its subsidiaries, "OPG") is the successor corporation to Ontario Hydro's electricity generation business. The Independent Electricity Market Operator is responsible for directing the operations and reviewing the reliability of the Ontario electricity market, and the Electrical Safety Authority has the responsibility for electrical equipment and wiring installation inspection functions. Ontario Hydro has continued as Ontario Electricity Financial Corporation ("OEFC"), responsible for managing and retiring Ontario Hydro's outstanding debt and other obligations.

OEFC has stranded debt. Stranded debt is defined as debt that the successor corporations could not service as commercial entities in a competitive market. The Province has stated that it will dedicate certain of its revenue streams from the restructured electricity industry (e.g., payments in lieu of corporate income and capital taxes made by Hydro One, OPG, and local distribution utilities) to service stranded debt. The Province anticipates that these dedicated revenue streams will service the majority of the stranded debt, with the balance serviced through a competition transition charge to be reflected in customers' electricity bills. The precise amount of any competition transition charge will reflect actual price and cost performance in the new competitive market. Hydro One has no obligation to pay, does not guarantee, and is not otherwise responsible for any stranded debt.

In exchange for substantially all of the assets, liabilities, rights and obligations of the electricity transmission, distribution and energy services businesses of Ontario Hydro with a net value of $8.6 billion, the Corporation issued to OEFC notes payable in an aggregate principal amount of $4.85 billion, together with an additional promissory note in the principal amount of $3.76 billion, which will be assumed by the Province in connection with the issuance of equity upon the completion of the transaction (see Notes 11 and 18).

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 3. REORGANIZATION OF ONTARIO HYDRO (Continued)

The capitalized value of Hydro One as at April 1, 1999 was determined as follows:

| | | |
|---|---|---|
| Excess of assets over liabilities of the Acquired Businesses as at March 31, 1999 | | 2,516 |
| Adjustments: | | |
| Elimination of allocated long-term debt from Ontario Hydro | 5,382 | |
| Elimination of allocated short-term notes from Ontario Hydro | 533 | |
| Elimination of allocated accrued interest | 143 | |
| Elimination of allocated deferred debt costs | (228) | |
| Debt issued effective as of April 1, 1999 | (4,845) | 985 |
| Other post-employment benefit asset *(Note 15)* | | 419 |
| Adjustment to deferred pension asset *(Note 15)* | | 164 |
| Regulatory liability *(Note 15)* | | (386) |
| Other net adjustments | | 61 |
| | | 3,759 |
| Represented by: | | |
| Shares to be issued *(Note 18)* | | 3,759 |

The purchase of the Acquired Businesses from the related party, OEFC, was recorded at the exchange amount of $8.6 billion, which equals the book values of the assets acquired and liabilities assumed on April 1, 1999 and, in the current regulatory environment, approximates their fair value.

Subsequent to additional verification of account balances by Hydro One and OEFC, the actual net amount of assets and liabilities acquired was less than estimates by $122 million. This excess of equity and liabilities over assets has been recorded as an account receivable, pending the outcome of negotiations related to the deferred pension asset and contributions in aid of construction.

The financial statements include a deferred pension asset and an offsetting regulatory liability. Hydro One's interpretation of the transitional rate orders issued by the Ontario Energy Board for Hydro One effective April 1, 1999 is that the revenue requirement is based on pension costs being recorded in operations when employer contributions are paid to the pension fund. As a rate-regulated entity, Hydro One must account for pension costs on this basis for the regulated portions of the business. The Ontario Energy Board has indicated that the rate treatment of pension costs could be re-examined at a future rate hearing. In the event that the Ontario Energy Board determines that the pension costs should be included in the revenue requirement on an accrual basis, Hydro One would not be required to record a regulatory liability.

In addition, contributions in aid of construction are recorded as a nil amount, on a net basis, within fixed assets (see Note 10). On January 18, 2000, the Ontario Energy Board decided that contributions in aid of construction collected by municipal electricity utilities prior to January 1, 2000, in accordance with the previous regulatory environment, can continue to be recovered through the revenue requirement. If the Ontario Energy Board confirms that Hydro One can adopt the same regulatory accounting treatment related to its distribution assets, and this overall industry treatment is acceptable to the Province, then Hydro One would be required to record amounts for contributions in aid of construction. Rate hearings planned for municipal electricity utilities and Hydro One's regulated distribution business during the year 2000 will provide the basis for resolution of this issue.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 3. REORGANIZATION OF ONTARIO HYDRO (Continued)

It has been proposed that the $122 million receivable be adjusted through shareholder's equity. If it is determined that the regulatory liability should not be recorded or that amounts for contributions in aid of construction should be recorded, Hydro One anticipates that a post-acquisition adjustment would be made to increase debt and shareholder's equity in a manner consistent with the original capital structure. At this time, the outcome of these negotiations, and the impact on debt, equity or other net assets, cannot be determined.

### 4. OPERATION, MAINTENANCE AND ADMINISTRATION

In November 1999, Hydro One approved a staff reduction program intended to reduce cost levels in 2000 and subsequent years. Hydro One plans to achieve this reduction through a voluntary retirement program, supplemented by targeted voluntary buyouts and involuntary severance using mechanisms available within existing collective agreements. Most of the costs for the staff reduction program will be funded from Hydro One's pension plan surplus. The funding impact on the pension surplus is expected to range between $240 million and $270 million. Hydro One has also recognized a $60 million charge to 1999 results of operations related to cash incentives and supplementary pension benefits that cannot be charged to the pension surplus. This amount also includes a small provision for the estimated cost of limited targeted buyouts and involuntary severance.

In addition, at year end Hydro One re-evaluated the need for some provisions previously recognized by Ontario Hydro and assumed by Hydro One on April 1, 1999. These provisions related to involuntary staff reduction costs and some future real estate costs. A provision for involuntary staff reductions totaling $21 million was recognized by Ontario Hydro in 1997. The remaining balance of $14 million will not be used and has been reversed as a credit to results of operations in 1999. The real estate provisions were recorded by Ontario Hydro in 1993 and were for estimated future post-occupancy costs, and for post-occupancy costs related to several other surplus real estate properties that were previously expected to be sold with no gain. Due to a change in market and other business conditions, some of these properties will now be retained and those properties to be sold are now likely to result in a gain. A total of $22 million related to real estate costs accrued by Ontario Hydro in 1993 was reversed as a credit to 1999 results of operations.

Ontario Hydro's Board of Directors approved a series of charges to results of operations for 1997. Of these charges, the following related to Hydro One:

- A write-off of $61 million that reflected the following decisions taken in 1997:

  The Board of Directors of Ontario Hydro determined that most of its field operation centres relating to its transmission and distribution (including retail) businesses would become surplus in connection with the transition to a more competitive environment. Approximately $33 million of this corporate write-off related to the estimated cost of disposing of these facilities, consisting of a $25 million total asset write-down from net book value ($48 million) to estimated market value ($23 million), and an $8 million provision for estimated post-occupancy costs, such as grants in lieu of taxes, security, and maintenance. These facilities are not expected to be disposed of before 2002. A lengthy period of time is required to sell these facilities because they are generally located in rural areas and were built specifically for utility purposes. In addition, Hydro One is now considering whether to retain some of these facilities in light of its strategy to acquire or enter into strategic relationships with municipal electricity utilities within Ontario. A combination of methods will be used to dispose of these facilities including use of brokers and auctions.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 4. OPERATION, MAINTENANCE AND ADMINISTRATION (Continued)

Ontario Hydro's Board of Directors also decided to terminate some pilot programs, such as the marketing of PCB destruction technologies, and businesses involved in development of alternate energy technologies, such as solar power. This decision led to an additional $14 million corporate write-off, relating to assets with a net book value of $17 million and an estimated market value of $5 million, as well as a $2 million provision for the estimated future expenditures associated with terminating these businesses.

Ontario Hydro also established a $14 million provision for the consolidation of a number of research and ancillary facilities.

- A charge for $18 million to cover the costs associated with a planned reduction of 100 employees was approved by Ontario Hydro's Board of Directors in 1997. This reduction in employees was expected to be completed by the end of 1998. Staff reduction costs provided for included severance, moving and employment counselling costs to be incurred in 1998 and 1999. Actual expenditures charged to the provision for staff reduction costs totalled $6 million in 1998.

### 5. DEPRECIATION AND AMORTIZATION

| | Acquired Businesses | | | | Combined |
|---|---|---|---|---|---|
| | Year ended December 31, 1997 | Year ended December 31, 1998 | Three Months ended March 31, 1999 | Nine Months ended December 31, 1999 | Year ended December 31, 1999 |
| Depreciation of fixed assets in service | 266 | 276 | 71 | 201 | 272 |
| Fixed asset removal costs | 36 | 24 | 4 | 14 | 18 |
| Amortization of regulatory assets | — | — | — | 52 | 52 |
| | 302 | 300 | 75 | 267 | 342 |

### 6. TRANSITIONAL COST ADJUSTMENT

The transitional cost adjustment represents the difference between allowed costs specified in the Ontario Energy Board transitional rate orders, and costs incurred by Ontario Hydro that were allowed under the *Power Corporation Act*. Costs included in Hydro One's rate base are higher due to payments in lieu of corporate taxes and an amount for amortization relating to the recovery of OPRB and OPEB costs. These additional costs are partially offset by reduced financing charges resulting from lower debt balances that reflect the new capital structure of the Corporation and lower interest rates as well as the elimination of the provincial debt guarantee fee levied by the Province. The transitional cost adjustment constitutes a one-time charge that will not recur in future periods.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 6. TRANSITIONAL COST ADJUSTMENT (Continued)

The following summarizes the components of the transitional cost adjustment for the first three months of 1999:

| | Acquired Businesses Three Months ended March 31, 1999 |
|---|---|
| Depreciation and amortization | 10 |
| Payments in lieu of capital tax | 6 |
| Payments in lieu of corporate income taxes | 87 |
| Provincial debt guarantee fee | (8) |
| Financing charges | (40) |
| | 55 |

### 7. ONTARIO HYDRO INTERNATIONAL INC.

On September 15, 1999, the Corporation's subsidiary, Ontario Hydro International Inc., sold its 25% equity interest in Ontario Quinta A.V.V. ("Ontario Quinta"), resulting in a gain before income taxes of $32 million. At the time of the sale, Ontario Quinta held a 60% interest in Luz del Sur S.A.A., an electricity distribution company serving southern Lima, Peru, and a 64% interest in Tecsur S.A.A., a utility maintenance and construction company also operating in Peru.

Prior to the sale, the results of operations, and the assets and liabilities of Ontario Quinta had been proportionately consolidated within Hydro One's financial statements.

The following summarizes the effects on the results of operations of using proportionate consolidation to account for the Ontario Quinta investment for the period prior to the sale. The effect on net income is equal to that which would have been obtained under the equity method (see Note 20).

#### STATEMENTS OF OPERATIONS

| | Acquired Businesses | | | | Combined |
|---|---|---|---|---|---|
| | Year ended December 31, 1997 | Year ended December 31, 1998 | Three Months ended March 31, 1999 | Nine Months ended December 31, 1999 | Year ended December 31, 1999 |
| Revenues | 122 | 116 | 26 | 43 | 69 |
| Operation, maintenance and administration | 40 | 39 | 9 | 15 | 24 |
| Purchased power | 72 | 65 | 13 | 24 | 37 |
| Depreciation and amortization | 5 | 6 | 2 | 2 | 4 |
| Financing charges | (3) | (3) | — | — | — |
| Net income | 8 | 9 | 2 | 2 | 4 |

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Canadian dollars in millions)

### 7. ONTARIO HYDRO INTERNATIONAL INC. (Continued)

### BALANCE SHEETS

| | Acquired Businesses | |
|---|---|---|
| | As at December 31, | |
| | 1998 | 1999 |
| Fixed assets (net) | 113 | — |
| Current assets | 31 | — |
| Other assets | 12 | — |
| Accounts payable | (30) | — |
| Long-term accounts payable | (49) | — |
| Investment account under the equity method of accounting | 77 | — |

### 8. FINANCING CHARGES

| | Acquired Businesses | | | | Combined |
|---|---|---|---|---|---|
| | Year ended December 31, 1997 | Year ended December 31, 1998 | Three Months ended March 31, 1999 | Nine Months ended December 31, 1999 | Year ended December 31, 1999 |
| Interest on short-term notes payable | 22 | 30 | — | — | — |
| Interest on long-term debt payable | 558 | 539 | 134 | 277 | 411 |
| Foreign exchange losses | 22 | 6 | — | — | — |
| Less: Interest charged to construction in progress | 12 | 10 | 3 | 15 | 18 |
| Less: Interest earned on investments | 6 | 6 | — | 12 | 12 |
| | 584 | 559 | 131 | 250 | 381 |

**HYDRO ONE INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
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## 9. CORPORATE INCOME TAXES

Hydro One was not subject to payments in lieu of corporate income taxes prior to April 1, 1999.

A reconciliation between the statutory and effective tax rate is provided as follows:

| | **Year ended December 31, 1999** |
|---|---|
| Income before provision for payments in lieu of corporate income taxes | 569 |
| Payments in lieu of corporate income taxes included in the transitional cost adjustment *(Note 6)* | 87 |
| Less: income before provision for payments in lieu of corporate income taxes for the period January 1 to March 31, 1999 | (197) |
| Adjusted income before provision for payments in lieu of corporate income taxes | 459 |
| Federal and Ontario statutory income tax rate | 42.62% |
| Statutory income tax rates applied to accounting income | 205 |
| Increase (decrease) in income taxes resulting from: | |
| The application of the income taxes payable method to the regulated businesses: | |
| Net temporary differences: | |
| Capital cost allowance in excess of depreciation and amortization | (50) |
| OPRB and OPEB expense in excess of OPRB and OPEB liability payments | 3 |
| Staff reduction charge in excess of cash payments | 27 |
| Interest capitalized for accounting purposes, but deducted for tax purposes | (7) |
| Net temporary differences | (27) |
| Permanent differences: | |
| Large corporations tax | 11 |
| Other items | 5 |
| Provision for payments in lieu of corporate income taxes | 194 |
| Effective income tax rate | 42.27% |

Future income taxes relating to the regulated businesses have not been recorded in the accounts as they are expected to be recovered through future revenues. As at December 31, 1999, future income tax liabilities of $27 million have not been recorded.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 10. FIXED ASSETS

| As at December 31 | Fixed assets in service | Accumulated depreciation | Construction in progress | Total |
|---|---|---|---|---|
| **1998 (Acquired Businesses)** | | | | |
| Transmission | 7,536 | 2,205 | 91 | 5,422 |
| Distribution (including retail) | 3,889 | 1,355 | 56 | 2,590 |
| Communication | 322 | 178 | 19 | 163 |
| Administration and service | 297 | 90 | 1 | 208 |
| | 12,044 | 3,828 | 167 | 8,383 |
| **1999** | | | | |
| Transmission | 7,629 | 2,287 | 248 | 5,590 |
| Distribution (including retail) | 3,711 | 1,310 | 47 | 2,448 |
| Communication | 322 | 178 | 1 | 145 |
| Administration and service | 245 | 73 | 4 | 176 |
| | 11,907 | 3,848 | 300 | 8,359 |

Fixed assets include contributions in aid of construction of $50 million for transmission (1998— $50 million) and $194 million for distribution (including retail) (1998 — $196 million). Contributions in aid of construction represents fixed assets owned by Hydro One. Since Hydro One did not pay for these assets, they have been recorded in the fixed asset accounts as nil, on a net basis.

Interest capitalized on fixed assets under construction was $18 million in 1999 (1998 — $10 million, 1997 — $12 million).

Pursuant to certain provisions of the *Power Corporation Act*, some municipalities in Ontario were permitted to expand the service territories of their respective municipal electricity utilities to include areas that were served by Ontario Hydro. These expansions involved the transfer of distribution assets, liabilities and customers from Ontario Hydro to the relevant municipal electricity utility at a prescribed price. The price payable for the transferred assets was prescribed by the *Power Corporation Act* as being equal to the original cost of the assets less the sum of the accumulated net retail equity and the accumulated depreciation associated with those assets as recorded in Ontario Hydro's books.

During 1998, $34 million of distribution assets were transferred to municipal electricity utilities. Approximately $75 million of distribution assets were transferred to municipal electricity utilities during 1999. The ability of municipalities to exercise this statutory expansion right ceased as of April 1, 1999.

### 11. DEBT

| | Acquired Businesses | |
|---|---|---|
| | As at December 31 | |
| | 1998 | 1999 |
| Short-term notes payable | 563 | — |
| Long-term debt payable within one year | 491 | 1,399 |
| Long-term debt | 5,128 | 3,446 |
| | 6,182 | 4,845 |

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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### 11. DEBT (Continued)

Debt as at December 31, 1999 represents various notes payable to OEFC. All notes are denominated in Canadian dollars. These notes are summarized by the number of years to maturity in the following table:

| Years to Maturity | Principal Outstanding | Weighted Average Interest Rate |
|---|---|---|
| | | (per cent) |
| 1 year | 1,399 | 5.8 |
| 2 years | 474 | 7.2 |
| 3 years | 443 | 11.0 |
| 4 years | 651 | 7.2 |
| 5 years | 682 | 6.8 |
| | 3,649 | 7.1 |
| 6 - 10 years | 1,196 | 9.5 |
| | 4,845 | 7.7 |

Debt as at December 31, 1998 represents a notional allocation of Ontario Hydro's debt to Hydro One based on a formula: allocated debt is equal to the total assets of each of Hydro One's businesses, less the sum of liabilities (other than debt) and excess of assets over liabilities of such businesses. The weighted average interest rate on the debt allocated to Hydro One, after giving effect to Ontario Hydro's interest rate risk management activities, was 9.0% for 1998 (see Note 2).

### 12. FAIR VALUE OF FINANCIAL INSTRUMENTS AND CREDIT RISK

***Fair value***

The following table presents the carrying amounts and fair values of financial instruments:

| | As at December 31, 1999 | |
|---|---|---|
| | Carrying Value | Fair Value |
| Long-term debt | 4,845 | 5,175 |

The fair value of long-term debt is based on year-end quoted market prices for similar debt of the same remaining maturities.

The carrying values of cash and temporary investments, accounts receivable, bank indebtedness and accounts payable and accrued charges, approximate fair value because of the short maturity of these instruments.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

## 12. FAIR VALUE OF FINANCIAL INSTRUMENTS AND CREDIT RISK (Continued)

***Credit risk***

Financial assets expose Hydro One to credit risk. As at December 31, 1999, there were no significant concentrations of credit risk with respect to any class of financial assets. Cash and temporary investments include approximately $451 million of commercial paper. These investments are of short maturity with a high rating. Derivative financial instruments result in exposure to credit risk, since there is a risk of counterparty default. As at December 31, 1999, Hydro One has not entered into any derivative financial instruments. With respect to the allocated debt, Ontario Hydro used various derivative financial instruments to hedge foreign exchange and interest rate risks. Ontario Hydro monitored and minimized credit risk related to derivative instruments by dealing only with diverse groups of highly-rated counterparties and by entering into master agreements which incorporated netting provisions. Netting provisions enable the settlement of derivative financial assets and liabilities with the counter party on a net basis in the event that the counterparty defaults.

Hydro One earns its revenue from a broad base of customers consistent with the draft revenue allocation agreement among the successor corporations. As a result, Hydro One does not earn a significant amount of revenue from any single customer. As at December 31, 1999, there were no significant balances of accounts receivable due from any single customer.

## 13. RELATED PARTY TRANSACTIONS

Prior to April 1, 1999, Hydro One, OPG, the Electrical Safety Authority and the Independent Electricity Market Operator were, in effect, business units of Ontario Hydro. Inter-business unit transactions are not available for 1998 and 1997 due to the integrated nature of the operations of these entities. Upon the reorganization of Ontario Hydro, OPG, the Electrical Safety Authority and the Independent Electricity Market Operator became related parties of Hydro One because all of these entities are controlled by the Province.

Hydro One receives revenue for transmission services consistent with the draft revenue allocation agreement administered by OPG (see Note 2). Transmission revenue for 1999 includes $1,164 million related to these services. Revenues of $302 million were realized during the three months ended March 31, 1999 and $862 million was realized during the nine months ended December 31, 1999.

Hydro One receives revenue for distribution (including retail) services consistent with the draft revenue allocation agreement administered by OPG (see Note 2). Distribution (including retail) revenue for 1999 includes $106 million related to these services. Revenues of $27 million were realized during the three months ended March 31, 1999 and $79 million was realized during the nine months ended December 31, 1999.

Hydro One receives amounts for rural rate protection from customer revenue collected by the Independent Electricity Market Operator (the Province prior to April 1, 1999) (see Note 2). Distribution (including retail) revenue includes $127 million related to this program, of which $7 million was paid to municipal electricity utilities in respect of annexation agreements. Net revenues of $31 million were realized during the three months ended March 31, 1999 and $89 million was realized during the nine months ended December 31, 1999.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 13. RELATED PARTY TRANSACTIONS (Continued)

Hydro One purchased power from OPG in the amount of $902 million in 1999. Hydro One purchased power from OPG in the amount of $264 million during the three months ended March 31, 1999 and $638 million during the nine months ended December 31, 1999.

Hydro One has several service level agreements with the successor corporations, primarily OPG. These services are provided or received on a cost recovery basis and include field and engineering, logistics, corporate, telecommunication and information technology services. The Corporation intends to negotiate future service level agreements on a commercial basis. Revenues include $64 million (transmission— $58 million; distribution— $6 million) related to the provision of services to the successor corporations and operation, maintenance and administration costs include $47 million (transmission — $32 million; distribution — $15 million) related to the purchase of services from the successor corporations. Revenues for the 3 months ended March 31, 1999 include $24 million and operation, maintenance and administration costs include $3 million related to these services. For the nine months ended December 31, 1999, revenues include $40 million and operation, maintenance and administration costs include $44million related to these services.

All debt since the commencement of operations has been issued to OEFC. Financing charges include interest expense on this debt in the amount of $411 million. Allocated debt for the period prior to April 1, 1999 included bonds and notes payable to the Province as well as to unrelated parties. In respect of the allocated debt, Hydro One paid a provincial debt guarantee fee to the Province. Upon commencement of operations, the Province does not guarantee Hydro One's debt, and accordingly, the provincial debt guarantee fee is no longer incurred.

Provision for payments in lieu of corporate income taxes were paid or payable to OEFC and dividends were paid or payable to the Province (see Note 2).

The amounts due to and from related parties as a result of the transactions referred to above are as follows as at December 31, 1999:

| | As at December 31, 1999 |
|---|---|
| Accounts receivable | 144 |
| Accounts payable and accrued charges | (169) |
| | (25) |

### 14. CONSOLIDATED STATEMENTS OF CASH FLOWS

For the purposes of the consolidated statements of cash flows, cash and cash equivalents are defined as balance sheet item "Cash and temporary investments", net of balance sheet item "Bank indebtedness". Temporary investments are comprised of commercial paper with original maturities of less than 90 days. Cash and cash equivalents as at December 31, 1998, were notionally allocated to Hydro One based on its proportion of allocated Ontario Hydro debt.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 14. CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

The changes in non-cash balances related to operations consist of the following:

| | Acquired Businesses | | | | Combined |
|---|---|---|---|---|---|
| | Year ended December 31, 1997 | Year ended December 31, 1998 | Three Months ended March 31, 1999 | Nine Months ended December 31, 1999 | Year ended December 31, 1999 |
| Accounts receivable (increase) decrease | (19) | 17 | 21 | (37) | (16) |
| Materials and supplies (increase) decrease | (5) | (15) | 2 | (18) | (16) |
| Accounts payable and accrued charges increase (decrease) | 110 | (52) | 5 | 66 | 71 |
| Accrued interest increase (decrease) | (10) | (8) | 6 | 72 | 78 |
| Long-term accounts payable and accrued charges increase (decrease) | 21 | (2) | 4 | (65) | (61) |
| OPRB and OPEB liability increase | — | — | — | 25 | 25 |
| | 97 | (60) | 38 | 43 | 81 |
| **Supplementary information:** | | | | | |
| Interest paid | 602 | 576 | 116 | 208 | 324 |
| Payments in lieu of corporate income taxes | — | — | — | 169 | 169 |

### 15. EMPLOYEE BENEFIT PLANS

Employee benefit plans include the pension plan, the group life insurance plan, the group health-care plan, the long-term disability plan and workers' compensation.

***Pension plan***

This information has been derived from the OEFC Pension Plan and is based upon Hydro One's proportionate share of the plan assets and liabilities. Prior to April 1, 1999, such information was based upon Hydro One's proportionate share of Ontario Hydro's payroll.

During 1999, pension costs of $2 million (1998 — $4 million, 1997 — $21 million) were charged to operations and $1 million (1998 — $1 million, 1997 — $5 million) was capitalized as part of the cost of fixed assets. Of this, $0.5 million was charged to operation, maintenance and administration costs during the three months ended March 31, 1999 and $1.5 million was charged to operation, maintenance and administration costs during the nine months ended December 31, 1999. During the three months ended March 31, 1999 $0.3 million was capitalized and $0.7 million was capitalized during the nine months ended December 31, 1999.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 15. EMPLOYEE BENEFIT PLANS (Continued)

In accordance with the transitional rate orders approved by the Ontario Energy Board, pension costs are recorded in results of operations when employer contributions are paid to the pension fund. On April 1, 1999 the deferred pension asset, representing the cumulative difference between employer contributions and pension costs, was increased to reflect Hydro One's actual number of employees and pensioners. Prior to April 1, 1999 the deferred pension asset was allocated based on Hydro One's proportionate share of Ontario Hydro's payroll. In addition, Hydro One recorded a regulatory liability in the amount of $241 million to recognize the fact that revenues and expenses are recognized in the financial statements in different periods, as directed by the regulator, than would an enterprise that is not rate-regulated (see Note 3).

The actuarial present value at December 31, 1999 of the accrued pension benefits, based on a projection of the valuation at December 31, 1998 and adjusted for $234 million additional liabilities associated with the voluntary retirement program, was estimated to be $3,690 million (1998 — $2,221 million). Pension plan assets available for these benefits were $4,296 million (1998 — $2,474 million).

The actuarial present value of the accrued pension benefits was determined using the following significant assumptions which reflect management's best estimates:

- rate used to discount future pension benefits — 6.50% (1998 — 6.00%, 1997 — 8.25%);
- salary escalation rate — 3.50% (1998 — 3.50%, 1997 — 3.50%) plus an age and service dependent increase in respect of promotion, progression and merit;
- rate of improvement to future pension benefits for cost of living — 2.50% (1998 — 2.50%, 1997 — 2.50%); and
- average remaining service period of active employees — 11 years (1998 — 12 years, 1997 — 14 years).

The provisions of the *Electricity Act, 1998* which relate to the OEFC Pension Plan allow Hydro One to reduce employer contributions to the pension fund to the extent permitted under the *Pension Benefits Act* when the plan has a surplus. In addition, contributions made by Ontario Hydro for the normal costs of the pension plan in respect of service after March 31, 1998 were refunded. As a result, the deferred pension asset was increased by $204 million to the value of the pension plan surplus, with a corresponding credit to 1998 results of operations.

***Other post-retirement and post-employment benefits***

In addition to pension benefits, Hydro One provides OPRB such as group life insurance and health-care benefits and OPEB such as workers' compensation and long-term disability benefits.

As at April 1, 1999, a proportionate share of Ontario Hydro's OPRB and OPEB liabilities were assumed by Hydro One. Prior to April 1, 1999, these obligations were allocated to Hydro One based on Hydro One's proportionate share of Ontario Hydro's payroll.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
*(Canadian dollars in millions)*

### 15. EMPLOYEE BENEFIT PLANS (Continued)

During 1999, OPRB and OPEB costs of $30 million (1998 — $31 million, 1997 — $17 million) were charged to results of operations and $22 million (1998 — $7 million, 1997 — $3 million) were capitalized as part of the cost of fixed assets. Of this, $8 million was charged to operation, maintenance and administration costs during the three months ended March 31, 1999 and $22 million was charged to operation, maintenance and administration costs during the nine months ended December 31, 1999. During the three months ended March 31, 1999, $6 million was capitalized and $16 million was capitalized during the nine months ended December 31, 1999. Benefits paid were $29 million (1998— $16 million, 1997 — $16 million). During the three months ended March 31, 1999, $7 million was paid and $22 million was paid during the nine months ended December 31, 1999. The OPRB and OPEB liabilities at December 31, 1999 were a combined $523 million (1998 — $351 million, 1997 — $183 million).

The OPRB and OPEB costs and liabilities were determined using the following significant assumptions which reflect management's best estimates:

- rate used to discount future OPRB benefits — 6.00% (1998 — 6.00%, 1997 — 8.25%);
- rate used to discount future long-term disability benefits — 5.50% (1998 — 5.50%, 1997 — 8.25%);
- rate used to discount future workers' compensation benefits — 5.75% (1998 — 5.75%, 1997 — 7.00%);
- rate of improvement to future long-term disability benefits for cost of living— 2.50% (1998 — 2.50%, 1997 — 2.50%);
- hospital and drug cost increase — 7.20% grading down to 4.50% after 3 years (1998 — 8.10% grading down to 4.50% after 4 years, 1997 — 9.00% grading down to 5.00% after 4 years);
- dental cost increase — 3.50% (1998 — 3.50%, 1997 — 2.75%); and
- average remaining service period of active employees — 11 years (1998 — 12 years, 1997 — 14 years).

On December 31, 1998 the rate used to discount future benefits was changed from a long-term average rate to a current market settlement rate and the increase in OPRB and OPEB liabilities of $108 million arising from this change was charged to shareholder's equity. The charge in 1997 of $182 million related to the transition obligation is associated with the change in accounting for OPRB and OPEB from a cash basis to an accrual basis.

The accrued OPRB and OPEB obligation at December 31, 1999, based on a projection of the valuation at December 31, 1998, was $425 million (1998 — $351 million, 1997 — $224 million). This valuation used the same assumptions as those used to determine OPRB and OPEB costs and liabilities except the following, which reflect the current market settlement rates at December 31, 1999:

- rate used to discount future OPRB benefits — 7.50% (1998 — 6.00%, 1997 — 8.25%);
- rate used to discount future long-term disability benefits — 7.00% (1998 — 5.50%, 1997 — 8.50%); and
- rate used to discount rate future worker's compensation benefits — 7.25% (1998 — 5.75%, 1997 — 7.00%).

In addition, the transitional rate orders issued by the Ontario Energy Board approved the amortization of obligations related to OPRB and OPEB in the amount of $419 million in Hydro One's revenue requirement on a straight-line basis over a 10-year period. The $419 million represents the transitional obligation associated with the change in accounting from a benefits paid basis to an accrual basis. The unamortized amount of this regulatory asset was $377 million at December 31, 1999.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Canadian dollars in millions)

### 16. CONTINGENCIES

*Legal proceedings*

As result of Hydro One's acquisition of certain transmission, distribution and energy services assets, liabilities, rights and obligations of Ontario Hydro, Hydro One has succeeded Ontario Hydro as a party in a number of legal proceedings. In 1995, Torcom Communications Inc. ("Torcom") named Ontario Hydro as one of several defendants in a suit seeking damages of $150 million, as well as specific performance of certain agreements and interim injunctive relief. Torcom had sought to purchase certain telecommunication devices belonging to a bankrupt company from the court-appointed receiver in bankruptcy. The devices had been installed on Ontario Hydro property under license to the original owner. Torcom claims that it reached an agreement with Ontario Hydro for the continued placement of the devices on Ontario Hydro property. Torcom alleges Ontario Hydro breached this contract and interfered with its efforts to purchase the devices from the receiver. There has been little activity on the case since 1995 when Ontario Hydro served a demand to particularize the allegations against it. Ontario Hydro did not receive a reply to its demand for particulars and has not yet served a statement of defence. Hydro One believes that there are strong defences to the plaintiff's claims against Ontario Hydro and that it is unlikely that the outcome of the litigation will have a material adverse effect on its business, results of operations, financial position or prospects.

Hydro One is one of many defendants in a suit in the Ontario Court (General Division) commenced on October 18, 1995 asserting aboriginal title to certain land within the City of Sarnia. The plaintiff, The Chippewas of Sarnia Band, alleges that the land was not properly surrendered before a Crown Patent was issued in 1853 and therefore subsequent owners who took possession under the Crown Patent do not possess valid title. Hydro One maintains transmission line facilities on portions of the disputed land. Hydro One cannot estimate the costs that might result from an adverse decision. On April 30, 1999, summary judgment was granted, dismissing the action against Ontario Hydro and certain of the defendants. On May 27, 1999, the plaintiff appealed the summary judgment order to the Court of Appeal for Ontario. Further, several defendants have also appealed the summary judgement order and others, including Hydro One, have filed cross-appeals. The appeals are currently scheduled to be heard on June 19, 2000. Hydro One believes that it is unlikely that the outcome of this litigation will have a material adverse effect on its business, results of operations, financial position or prospects.

On March 29, 1999, the Whitesand First Nation Band commenced an action in the Ontario Court (General Division), naming as defendants the Province, the Attorney General of Canada, Ontario Hydro, OEFC, OPG and the Corporation. A notice of intent to defend was filed on behalf of Hydro One. The action seeks declaratory relief, injunctive relief and damages in an unspecified amount. The Whitesand Band alleges that since at least the first half of the twentieth century Ontario Hydro has erected dams, generating stations and other facilities within or affecting the band's traditional lands and that such facilities have caused damage to band members and the lands, including substantial flooding and erosion. The Whitesand Band also claims treaty rights to a share of the profits arising from the activities of these Ontario Hydro facilities, an entitlement to increases in annuity payments established by treaty and compensation for costs incurred in the course of prior negotiations of band grievances with Ontario Hydro. The Whitesand Band asserts multiple causes of action, including trespass, breach of fiduciary duty, nuisance and negligence. Hydro One believes that it is unlikely that the outcome of this litigation will have a material adverse effect on its business, results of operations, financial position or prospects.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 16. CONTINGENCIES (Continued)

***Transfer of Assets — Authorizations and Consents***

On April 1, 1999, in connection with the acquisition of its operations, Hydro One acquired and assumed assets, liabilities, rights and obligations of Ontario Hydro's electricity transmission, distribution and energy services businesses, except for certain transmission, distribution and other assets located on lands held for bands or bodies of Indians under the *Indian Act* (Canada). Transfer of title to these assets did not occur because authorizations originally granted by the Canadian Minister of Indian and Northern Affairs for the construction and operation of these assets could not be transferred without the consent of the Minister and the relevant Indian bands or bodies or, in several cases, because the authorizations had either expired or had never been properly issued. Hydro One manages these assets which are currently owned by OEFC.

Hydro One has commenced negotiations with the relevant Indian bands and bodies to obtain the authorizations and consents necessary to complete the transfer of these transmission, distribution and other assets. Hydro One cannot predict the aggregate amount that it may have to pay to obtain the required authorizations and consents. Hydro One expects to pay more than $850,000 per year which was the amount previously paid to these Indian bands and bodies by Ontario Hydro and which is the total amount of allowed costs in the transitional rate orders. If after taking all reasonable steps, Hydro One cannot otherwise obtain the authorizations and consents from the Indian bands and bodies, the OEFC will continue to hold these assets for an indefinite period of time. Alternatively, Hydro One may have to relocate these assets from the Indian lands to other locations at a cost which could be substantial, or, in a limited number of cases, to abandon a line and replace it with diesel generation facilities. In such cases, Hydro One would apply to the Ontario Energy Board to recover these costs in future rate orders.

***Environment***

Hydro One is subject to extensive Canadian federal, provincial and local regulation with respect to environmental and other health and safety matters. Governmental authorities regulate current operating facilities and exercise continuing jurisdiction over facility modifications. Hydro One is subject to an administrative order issued against Ontario Hydro by the Ontario Ministry of the Environment on September 2, 1997. The order requires that power generating facilities where discharges are causing or may cause adverse effects, or where waste is stored without approval, be identified, assessed, and, if necessary, remediated. This order affects remote generating station sites and generating station switchyards operated by Hydro One. Hydro One's current estimates indicate that the total cost for assessment and remediation at the remote generating station sites will be approximately $19 million over a four- to six-year period. Hydro One's current estimate of its remediation and assessment costs associated with the generating station switchyards is approximately $3 million over a four- to six-year period.

Environmental regulations can change rapidly and may be difficult to predict. Because existing or future facilities may be subject to new standards imposed by environmental regulation, substantial expenditures may be required to comply with such regulations. Hydro One is currently reviewing the environmental condition of various properties and costs for investigation or remediation of such properties may exceed estimated amounts depending on the results of the review. Hydro One analyzes the costs of its obligations arising from environmental matters on an ongoing basis. The ultimate resolution of future environmental matters is not expected to have a material adverse effect upon the financial position or results of operations of Hydro One.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 16. CONTINGENCIES (Continued)

*Uncertainty due to the Year 2000 issue*

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. As a result of a comprehensive, three-stage program to identify and implement the changes necessary to achieve Year 2000 readiness, Hydro One did not experience any significant disruption to business operations at the turn of the century or to date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect Hydro One, including those related to customers, suppliers, or other third parties, have been fully resolved.

### 17. COMMITMENTS

The future minimum lease payments under operating leases for each of the five years subsequent to December 31, 1999 and in total thereafter are as follows:

| Year ended December 31 | |
|---|---|
| 2000 | 23 |
| 2001 | 23 |
| 2002 | 18 |
| 2003 | 14 |
| 2004 | 13 |
| Thereafter | 4 |
| Total future minimum lease payments | 95 |

### 18. SUBSEQUENT EVENTS

On March 31, 2000, the Corporation issued to the Province of Ontario 12,920,000 5.5% cumulative preferred shares with a redemption value of $25.00 per share, and 99,990 common shares bringing the total number of outstanding common shares to 100,000. The Corporation is authorized to issue an unlimited number of preferred and common shares.

In consideration of the Corporation's issuance to the Province of preferred shares and common shares, the Province assumed the Corporation's obligations, including accrued interest from April 1, 1999, under the $3.76 billion promissory note effective as of March 31, 2000 and, in connection with the assumption of the Corporation's obligations by the Province, OEFC has released the Corporation effective as of March 31, 2000 from its obligations under the promissory note (see Note 3).

The preferred shares are entitled to a total annual cumulative dividend of $18 million, which is payable on a quarterly basis. The preferred shares are redeemable at the option of the Province at a price of $25.00 per share plus any accrued and unpaid dividends if the Province sells a number of the Corporation's common shares which it owns to the public such that the Province's holdings are reduced to less than 50% of the Corporation's common shares. The Corporation may elect to pay all or part of this redemption price by issuing additional common shares to the Province. If the Province does not exercise its redemption right, the Corporation would have the ability to adjust the dividend on the preferred shares to produce a yield that is 0.50% less than the then current dividend market yields for similarly rated preferred shares. The preferred shares do not carry voting rights, except in limited circumstances, and would rank in priority to the common shares upon liquidation.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 18. SUBSEQUENT EVENTS (Continued)

The common dividends are declared at the sole discretion of the Corporation's Board of Directors, and recommended by management based on results of operations, financial condition, cash requirements and other relevant factors such as industry practice and shareholder expectations. In accordance with resolutions made by the Board of Directors, in respect of the nine months ended December 31, 1999, $13.3 million in preferred dividends and $158 million in common dividends became payable to the Province, for a total of $171.3 million.

### 19. SEGMENT REPORTING

Hydro One has three reportable segments:

(i) the transmission business, which comprises the core business of providing transportation and connection services, as well as various non-regulated services such as telecommunications and secondary land use, is responsible for transmitting electricity throughout the Ontario electricity grid;
(ii) the distribution (including retail) business, which comprises the core business of delivering and selling electricity to customers, as well as energy services; and
(iii) an "other" segment primarily consisting of the results of Ontario Hydro International Inc.

The designation of segments has been based on a combination of regulatory status and the nature of the products and services provided. The accounting policies followed by the segments are the same as those described in the summary of significant accounting policies (see Note 2).

Segment information on the above basis is as follows:

| | Acquired Businesses | | | |
|---|---|---|---|---|
| | Year ended December 31 | | | |
| | Transmission | Distribution (including retail) | Other | Total |
| **1997** | | | | |
| Revenues | 1,095 | 1,846 | 158 | 3,099 |
| Operation, maintenance and administration | 303 | 302 | 101 | 706 |
| Purchased power | 10 | 1,168 | 72 | 1,250 |
| Depreciation and amortization | 174 | 123 | 5 | 302 |
| Segment profit before provincial debt guarantee fee and financing charges | 608 | 253 | (20) | 841 |

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Canadian dollars in millions)

### 19. SEGMENT REPORTING (Continued)

| | Acquired Businesses<br>Year ended December 31 | | | |
|---|---|---|---|---|
| | Transmission | Distribution (including retail) | Other | Total |
| **1998** | | | | |
| Revenues | 1,178 | 1,746 | 124 | 3,048 |
| Operation, maintenance and administration | 349 | 330 | 44 | 723 |
| Purchased power | 17 | 1,083 | 65 | 1,165 |
| Depreciation and amortization | 179 | 115 | 6 | 300 |
| Segment profit before provincial debt guarantee fee, financing charges and deferred pension asset | 633 | 218 | 9 | 860 |

| | Acquired Businesses<br>Three months ended March 31 | | | |
|---|---|---|---|---|
| | Transmission | Distribution (including retail) | Other | Total |
| **1999** | | | | |
| Revenues | 305 | 518 | 27 | 850 |
| Operation, maintenance and administration | 93 | 90 | 11 | 194 |
| Purchased power | — | 264 | 13 | 277 |
| Depreciation and amortization | 42 | 31 | 2 | 75 |
| Segment profit before transitional cost adjustment, provincial debt guarantee fee and financing charges | 170 | 133 | 1 | 304 |

| | Nine Months ended December 31 | | | |
|---|---|---|---|---|
| | Transmission | Distribution (including retail) | Other | Total |
| **1999** | | | | |
| Revenues | 932 | 1,298 | 45 | 2,275 |
| Operation, maintenance and administration | 339 | 310 | 20 | 669 |
| Purchased power | — | 638 | 24 | 662 |
| Depreciation and amortization | 137 | 128 | 2 | 267 |
| Segment profit before financing charges | 456 | 222 | (1) | 677 |

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 19. SEGMENT REPORTING (Continued)

| | Combined<br>Year ended December 31 | | | |
|---|---|---|---|---|
| | Transmission | Distribution (including retail) | Other | Total |
| **1999** | | | | |
| Revenues | 1,237 | 1,816 | 72 | 3,125 |
| Operation, maintenance and administration | 432 | 400 | 31 | 863 |
| Purchased power | — | 902 | 37 | 939 |
| Depreciation and amortization | 179 | 159 | 4 | 342 |
| Segment profit before transitional cost adjustment, provincial debt guarantee fee and financing charges | 626 | 355 | — | 981 |

| | As at December 31 | | | |
|---|---|---|---|---|
| | Transmission | Distribution (including retail) | Other | Total |
| **Total assets** | | | | |
| 1998 (Acquired Businesses) | 6,107 | 3,168 | 160 | 9,435 |
| 1999 | 6,658 | 3,431 | 1 | 10,090 |

| | Year ended December 31 | | | |
|---|---|---|---|---|
| | Transmission | Distribution (including retail) | Other | Total |
| **Capital expenditures** | | | | |
| 1997 (Acquired Businesses) | 176 | 126 | 22 | 324 |
| 1998 (Acquired Businesses) | 171 | 195 | 28 | 394 |
| 1999 (Combined) | 327 | 196 | 6 | 529 |

All revenues, costs and assets, as the case may be, are earned, incurred or held in Canada, except for the operations of Ontario Hydro International Inc. (see Note 7).

### 20. RECONCILIATION TO U.S. GAAP

The consolidated financial statements of Hydro One have been prepared in accordance with Canadian GAAP, which conforms in most respects to U.S. GAAP. Under both Canadian GAAP and U.S. GAAP, certain of the Corporation's accounting policies differ from those that would be followed by enterprises operating in a non-rate-regulated environment.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 20. RECONCILIATION TO U.S. GAAP (Continued)

The material differences between Canadian GAAP, as used in the preparation of these consolidated financial statements, and U.S. GAAP are summarized below.

**Consolidated Statements of Operations**

| | Acquired Businesses | | Combined |
|---|---|---|---|
| | Year ended December 31 | | |
| | 1997 | 1998 | 1999 |
| | (Canadian dollars in millions) | | |
| **Net income** | 225 | 474 | 375 |
| Adjustments increase (decrease): | | | |
| Pension costs (a) | — | (25) | — |
| Other post-retirement benefit costs (a) | (4) | (7) | — |
| Other post-employment benefit costs (a) | — | 12 | 8 |
| Staff reduction charges (b) | 18 | (6) | 45 |
| Environmental costs (c) | (184) | (9) | 35 |
| Corporate write-offs (d) | 33 | (2) | (24) |
| Net income and comprehensive income (U.S. GAAP) | 88 | 437 | 439 |
| Excess of assets over liabilities as at March 31, 1999 | — | — | (2,686) |
| Excess of assets over liabilities, opening (U.S. GAAP) | 2,040 | 2,128 | 2,565 |
| Excess of assets over liabilities, closing (U.S. GAAP) | 2,128 | 2,565 | — |
| Retained earnings, closing (U.S. GAAP) | — | — | 318 |

**Consolidated Balance Sheets**

| | Acquired Businesses | |
|---|---|---|
| | As at December 31 | |
| | 1998 | 1999 |
| | (Canadian dollars in millions) | |
| **Assets: increase (decrease)** | | |
| Fixed assets in service (a),(d) | 23 | 16 |
| Deferred pension asset (a) | 3 | 150 |
| Regulatory asset (e) | — | 27 |
| **Liabilities: (increase) decrease** | | |
| Accounts payable and accrued charges (b),(d) | (2) | 46 |
| Other post-retirement & post-employment benefits (a) | 1 | 13 |
| Long-term accounts payable and accrued charges (c) | (193) | (158) |
| Regulatory liability (a) | (3) | (150) |
| Deferred tax liability (e) | — | (27) |
| | (171) | (83) |

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 20. RECONCILIATION TO U.S. GAAP (Continued)

**(a)** ***Pension and other post-retirement and post-employment benefits:***

At December 31, 1998 Hydro One's pension accounting conformed to U.S. GAAP. Effective April 1, 1999, in accordance with the transitional rate orders approved by the Ontario Energy Board, pension costs are recorded in results of operations when employer contributions are paid to the pension fund. As under U.S. GAAP, the deferred pension asset continues to be recorded. However, an offsetting regulatory liability has also been recorded. At December 31, 1999, the amount of the deferred pension asset, and corresponding regulatory liability, would have been $391 million under U.S. GAAP. Additional liabilities of $229 million under U.S. GAAP, associated with the voluntary retirement program would not be recognized as an adjustment to the deferred pension asset and corresponding regulatory liability until 2000. The amount of the deferred pension asset under U.S. GAAP of $391 million compares with the $241 million deferred pension asset and regulatory liability recorded on Hydro One's balance sheet at December 31, 1999.

Under Canadian GAAP, a long-term average rate of return is used to discount future pension benefits. Under U.S. GAAP, a current market settlement rate is used to discount future pension benefits. For pension cost purposes, the rate would have been 6.00% (1998 — 6.25%, 1997 — 8.25%). The expected rate of return on pension plan assets is 7.25% (1998 — 9.00%, 1997 — 9.00%). Past service costs and actuarial gains and losses are amortized over the average remaining service period of active employees of 11 years (1998 — 12 years, 1997 — 14 years). The accrued pension benefit obligation as at December 31, 1999, based on a projection of the valuation at December 31, 1998, would have been based on the rate of 7.25% used to discount future pension benefits (1998 — 6.00%, 1997 — 8.25%).

At December 31, 1998, following the adoption of new accounting recommendations issued by the Canadian Institute of Chartered Accountants, OPRB and OPEB liabilities conformed to U.S. GAAP.

Under U.S. GAAP, the OPEB liabilities at December 31, 1999 and 1999 OPEB cost would have been $13 million lower due to the immediate recognition of the actuarial gain due to a change in the current market settlement rate at December 31, 1999. Of this, $8 million would have been credited to operations and $5 million to the cost of fixed assets.

The 1998 pension, OPRB and OPEB costs differed from U.S. GAAP because of the timing of the adoption of the new accounting recommendations.

The following additional information regarding pension, OPRB and OPEB under U.S. GAAP is presented to conform to U.S. GAAP disclosure requirements.

| | Acquired Businesses | | Combined |
|---|---|---|---|
| | Year ended December 31 | | |
| | 1997 | 1998 | 1999 |
| | (Canadian dollars in millions) | | |
| **Components of pension cost:** | | | |
| Current service cost | 29 | 50 | 67 |
| Interest on accrued pension benefit obligation | 111 | 129 | 214 |
| Expected return on plan assets | (185) | (207) | (275) |
| Amortization of transition asset | (8) | (8) | — |
| Amortization of prior service cost | 18 | 18 | — |
| Amortization of net actuarial gains | (43) | (27) | (1) |
| Adjustment for pension plan surplus ownership | 106 | (130) | — |
| Pension cost | 28 | (175) | 5 |

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
## (Canadian dollars in millions)

### 20. RECONCILIATION TO U.S. GAAP (Continued)

| | Acquired Businesses<br>Year ended December 31<br>1998 | <br><br>1999 |
|---|---|---|
| | (Canadian dollars in millions) | |
| **Pension plan assets:** | | |
| **Fair value, beginning of year** | 2,324 | 2,474 |
| Allocation adjustment | — | 1,461 |
| Employer contributions | 7 | — |
| Employee contributions | 16 | 17 |
| Actual return on assets | 207 | 519 |
| Benefits paid | (80) | (168) |
| Administration expense | — | (7) |
| **Fair value, end of year** | 2,474 | 4,296 |
| **Accrued pension benefit obligation:** | | |
| **Balance, beginning of year** | 2,070 | 2,246 |
| Allocation adjustment | — | 1,363 |
| Current service cost | 65 | 84 |
| Interest on accrued pension benefit obligation | 129 | 214 |
| Benefits paid | (80) | (168) |
| Net actuarial losses (gains) | 62 | (624) |
| **Balance, end of year** | 2,246 | 3,115 |
| **Pension plan surplus** | 228 | 1,181 |
| Unamortized transition asset | (32) | — |
| Unamortized net actuarial gains | (104) | (790) |
| Unamortized prior service cost | 135 | — |
| **Deferred pension asset** | 227 | 391 |

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 20. RECONCILIATION OF U.S. GAAP (Continued)

The following additional information regarding OPRB costs is presented to conform with financial reporting disclosure requirements in the United States:

| | Acquired Businesses | | Combined |
|---|---|---|---|
| | Year ended December 31 | | |
| | 1997 | 1998 | 1999 |
| | (Canadian dollars in millions) | | |
| **Components of OPRB cost:** | | | |
| Current service cost | 4 | 6 | 9 |
| Interest on accrued OPRB obligation | 12 | 14 | 23 |
| Amortization of net actuarial losses | 1 | 2 | 2 |
| Amortization of prior service costs | — | 2 | — |
| **OPRB cost** | 17 | 24 | 34 |
| **Accrued OPRB obligation:** | | | |
| **Balance, beginning of year** | 155 | 193 | 241 |
| Allocation adjustment | — | — | 166 |
| Current service cost | 4 | 6 | 9 |
| Interest on accrued OPRB obligation | 12 | 14 | 23 |
| Plan amendments | — | 26 | — |
| Net actuarial (gains) losses | 29 | 9 | (96) |
| Benefits paid | (7) | (7) | (16) |
| **Balance, end of year** | 193 | 241 | 327 |
| Unamortized net actuarial gains (losses) | (45) | (52) | 85 |
| Unamortized prior service cost | — | (23) | — |
| **OPRB liabilities, end of year** | 148 | 166 | 412 |
| **OPEB liabilities, end of year** | 69 | 109 | 98 |

A 1% change in the assumed medical and dental cost would affect the accrued OPRB obligation and the current service cost and interest on the accrued OPRB obligation components of OPRB cost reported as follows:

| | 1% increase | | 1% decrease | |
|---|---|---|---|---|
| | Accrued OPRB obligation | Current service cost and interest | Accrued OPRB obligation | Current service cost and interest |
| | (Canadian dollars in millions) | | | |
| **1998** | 37 | 3 | (29) | (3) |
| **1999** | 35 | 4 | (29) | (3) |

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 20. RECONCILIATION OF U.S. GAAP (Continued)

#### (b) *Staff reduction charges*

Under Canadian GAAP, costs relating to staff reduction programs are recognized at the time management approves such reductions and the costs can be reasonably estimated. Under U.S. GAAP, the cost of staff reduction programs may not be recognized unless the program specifically identifies the number of employees and their job classification and location, and the terminations will occur within one year from the date that management approves the reduction program. Ontario Hydro recognized staff reduction costs of $18 million in 1997. An additional $3 million was allocated to Hydro One on April 1, 1999. Actual staff reduction expenditures of $1 million were incurred in 1999 (1998—$6 million). The remaining $14 million provision was reversed to results of operations in 1999 (see Note 4).

Hydro One has also recognized in 1999 a new provision for voluntary staff reduction costs expected to be incurred in 2000. Under Canadian GAAP, such costs can be recognized when a reasonable estimate of the cost of offering a voluntary retirement program can be made. Under U.S. GAAP, such costs can only be recognized when employees actually accept an offer of early retirement. Under U.S. GAAP, the new provision of $60 million would not have been recognized as a 1999 charge to results of operations.

Under U.S. GAAP, that portion of the staff reduction program to be funded with surplus pension assets would be recorded as equal reductions of the deferred pension asset and the corresponding regulatory liability when appropriate recognition criteria have been met. As a result, the results of operations and shareholder's equity would not be affected under U.S. GAAP.

#### (c) *Environmental costs*

Ontario Hydro's policy for environmental costs was to recognize expenditures to settle past environmental damage as incurred. Hydro One continues to apply this policy. Under U.S. GAAP, future costs are to be recognized when it is likely that a liability has been incurred and when the amount and timing of the future costs are reasonably estimable. Under U.S. GAAP, a charge for estimated future costs associated with the removal and destruction of PCBs and for land assessment and remediation in the amount of $184 million would have been recorded in 1997. This amount would have been increased by $28 million in 1998 as a result of improved cost estimates and additional assessments carried out during 1998.

In 1998, environmental expenditures totaling $19 million were charged to results of operations. Under U.S. GAAP, these expenditures would have been charged to the balance sheet provisions established in 1997 and 1998. As such, the net adjustment for 1998 for U.S. GAAP purposes, taking into account the additional $28 million liability to be recognized under U.S. GAAP referred to above and the $19 million that would have been charged to the existing environmental liability provision, is $9 million.

In 1999, Hydro One reviewed its estimates of future environmental costs and determined that the 1997 and 1998 amounts that were identified as warranting a provision under U.S. GAAP had not changed. Hydro One incurred actual environmental costs of $35 million in 1999. Had these amounts been accounted for under U.S. GAAP, they would have been charged to the balance sheet provisions established in 1997 and 1998 rather than as a charge to 1999 results of operations.

## HYDRO ONE INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 20. RECONCILIATION OF U.S. GAAP (Continued)

#### (d) *Corporate write-offs*

A $33 million write-off related to a decision to dispose of certain field operation centres and included in 1997 OM&A would not have been recognized in that year under U.S. GAAP. The $33 million amount represented $25 million for a write-down of specific fixed assets and $8 million for a provision for non-discretionary post-occupancy costs. Under U.S. GAAP, the fixed assets would have remained on Hydro One's balance sheet as assets held for future use and depreciation of $2 million per year would have continued. The post-occupancy costs of $8 million have been removed from accounts payable and accrued charges and the opening U.S. GAAP balance of the excess of assets over liabilities.

In 1999, under Canadian GAAP, Hydro One reversed a $22 million provision to results of operations. This provision was originally recognized in 1993 for post-occupancy costs related to certain surplus real estate properties. The provision would not have been recognized under U.S. GAAP in 1993 and, as a result, has been removed from the opening excess of assets over liabilities in 1997 under U.S. GAAP. In the U.S. GAAP reconciliation, the provision has been removed from accounts payable for 1998 and 1999 and the effect of the reversal has been removed from the Statement of Operations for 1999.

#### (e) *Deferred income taxes*

U.S. GAAP requires the reporting and display of deferred income tax liabilities and assets on the balance sheet. To the extent that the deferred income taxes are expected to be included in the approved rate charged to customers in the future, Hydro One would record a regulatory asset. The amount of deferred taxes reported for U.S. GAAP purposes is based on information included in Note 9.

#### (f) *Proportionate consolidation of joint ventures*

Under Canadian GAAP, Hydro One accounted for its indirect investment in Ontario Quinta using the proportionate consolidation method (see Note 7). Under U.S. GAAP, Hydro One's indirect investment in Ontario Quinta would have been accounted for using the equity method. However, U.S. securities regulations allow Hydro One to omit from the U.S. GAAP reconciliation the differences resulting from the use of the proportionate consolidation method, subject to the provision of the information included in Note 7.

#### (g) *Transitional cost adjustment*

As set forth in Note 6 to the financial statements, the Corporation recorded a transitional cost adjustment in the first three months of 1999. Under U.S. GAAP, the transitional cost adjustment would not be recognized in the specific cost line items in the first three months of 1999. Instead, under U.S. GAAP, the transitional cost adjustment would be netted against revenue.

## HYDRO ONE INC
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Canadian dollars in millions)**

### 20. RECONCILIATION OF U.S. GAAP (Continued)

**(h)** ***Future accounting pronouncements***

The U.S. Financial Accounting Standards Board has issued new standards on accounting for derivative financial instruments and hedging activities under Statement No. 133, effective for fiscal years beginning on or after June 15, 2000. Statement No. 133 establishes accounting and reporting standards requiring that all derivative instruments (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either assets or liabilities measured at their fair value. In addition, Statement No. 133 requires that changes in a derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. If these criteria are met, and the corporation has formally documented, designated and assessed the effectiveness of qualifying transactions, gains and losses on the derivatives may be offset against losses and gains on the hedged item in the income statement. Hydro One has not yet determined the extent to which it will use derivatives in the future and, therefore, the related effect of the new standards on its financial statements.

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Provincial Auditor
of Ontario

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***Auditor's Report***

To the Liquor Control Board of Ontario
and to the Minister of Consumer and Commercial Relations

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 2000 and the statements of income and retained income and of cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2000, the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Erik Peters

Toronto, Ontario
June 9, 2000

Erik Peters, FCA
Provincial Auditor

## LIQUOR CONTROL BOARD OF ONTARIO

### Balance Sheet
### As at March 31, 2000

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and short-term investments (Note 3) | 31,133 | 24,578 |
| Accounts receivable, trade and others | 13,114 | 6,061 |
| Inventories | 255,398 | 236,292 |
| Prepaid expenses | 9,079 | 8,843 |
| | 308,724 | 275,774 |
| **Long-term** | | |
| Capital assets (Note 4) | 172,124 | 148,183 |
| | 480,848 | 423,957 |
| **LIABILITIES AND RETAINED INCOME** | | |
| Accounts payable and accrued liabilities | 221,226 | 210,029 |
| Retained income | 259,622 | 213,928 |
| | 480,848 | 423,957 |

**Commitments** (Note 5)

See accompanying notes to financial statements.

Approved by:

Chair and Chief Executive Officer

J. C. Brown

Vice President
Finance and Administration

## LIQUOR CONTROL BOARD OF ONTARIO

### Statement of Income and Retained Income
### Year Ended March 31, 2000

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| | 2000 ($000's) | 1999 ($000's) |
|---|---:|---:|
| **Sales and other income** | 2,549,458 | 2,349,832 |
| **Costs and expenses** | | |
| Cost of sales | 1,288,903 | 1,165,849 |
| Retail stores and marketing | 303,272 | 276,554 |
| Warehousing and distribution | 41,888 | 37,917 |
| Administration | 40,119 | 34,507 |
| Amortization | 29,582 | 25,580 |
| | 1,703,764 | 1,540,407 |
| **Net income for the year** | 845,694 | 809,425 |
| **Retained income, beginning of year** | 213,928 | 184,503 |
| | 1,059,622 | 993,928 |
| **Deduct:** | | |
| Dividend paid to Province of Ontario | 795,000 | 776,000 |
| Payment to municipalities on behalf of the Province of Ontario (Note 9) | 5,000 | 4,000 |
| | 800,000 | 780,000 |
| **Retained income, end of year** | 259,622 | 213,928 |

See accompanying notes to financial statements.

## LIQUOR CONTROL BOARD OF ONTARIO

### Statement of Cash Flows
Year Ended March 31, 2000

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| **Cash provided from Operations** | | |
| Net income | 845,694 | 809,425 |
| Amortization | 29,582 | 25,580 |
| Loss (Gain) on sale of capital assets | 920 | (540) |
| | 876,196 | 834,465 |
| Change in working capital | (15,198) | (8,651) |
| | 860,998 | 825,814 |
| **Cash used for investment activities** | | |
| Purchase of capital assets | (54,456) | (40,958) |
| Proceeds from sale of capital assets | 13 | 693 |
| | (54,443) | (40,265) |
| **Cash used for financing activities** | | |
| Dividend paid to Province of Ontario | (795,000) | (776,000) |
| Payment to municipalities on behalf of the Province of Ontario | (5,000) | (4,000) |
| | (800,000) | (780,000) |
| **Increase in cash during the year** | 6,555 | 5,549 |
| **Cash and short-term investments, beginning of year** | 24,578 | 19,029 |
| **Cash and short-term investments, end of year** | 31,133 | 24,578 |

See accompanying notes to financial statements.

## LIQUOR CONTROL BOARD OF ONTARIO

**Notes to Financial Statements**
**March 31, 2000**

### 1. NATURE OF THE CORPORATION

The Liquor Control Board of Ontario (Board) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The corporation is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario. As an Ontario Crown Corporation, the Board is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*. The Board transfers most of its profits to the Consolidated Revenue Fund in the form of a dividend.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Accounting

The Board's financial statements are prepared in accordance with generally accepted accounting principles.

#### (b) Inventories

Inventories are valued at the lower of cost and net realizable value with cost being determined by the moving average cost method.

#### (c) Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 20 years |
| Furniture and Fixtures | 5 years |
| Leasehold Improvements | 5 years |
| Computer Equipment | 3 years |

Minor capital expenditures and the expenditures for repairs and maintenance are charged to income.

### 3. CASH AND SHORT-TERM INVESTMENTS

The Board's investment policy restricts short-term investments to high liquidity, high grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

Cash and short-term investments include $8.0 million (1999 - $15.5 million) of investments maturing within one year, yielding 5.27% (1999 – 5.1%) on average, with a market value that approximates carrying value.

**LIQUOR CONTROL BOARD OF ONTARIO**

**Notes to Financial Statements**
**March 31, 2000**

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## 4. CAPITAL ASSETS

| | 2000 ($000's) | | | 1999 ($000's) |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Land | 13,835 | — | 13,835 | 13,848 |
| Buildings | 253,343 | 171,472 | 81,871 | 79,074 |
| Furniture and fixtures | 33,041 | 26,529 | 6,512 | 5,663 |
| Leasehold improvements | 92,776 | 62,863 | 29,913 | 22,922 |
| Computer equipment | 73,771 | 33,778 | 39,993 | 26,676 |
| | 466,766 | 294,642 | 172,124 | 148,183 |

## 5. LEASE COMMITMENTS

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

| | ($000's) |
|---|---|
| 2001 | 26,789 |
| 2002 | 23,161 |
| 2003 | 19,881 |
| 2004 | 16,432 |
| 2005 | 13,941 |
| Thereafter | 79,654 |
| | 179,858 |

## 6. PENSION PLAN

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario.

The Board's expense related to the PSPF and the OPSEU Pension Fund for the year was $9.4 million (1999 - $9.9 million) and is included in Costs and expenses in the Statement of Income and Retained Income.

## 7. HEDGING

The Board has entered into forward foreign exchange contracts to manage the foreign exchange risk associated with its purchases from foreign suppliers. A forward foreign exchange contract is an agreement between two parties to set exchange rates in advance.

## LIQUOR CONTROL BOARD OF ONTARIO

**Notes to Financial Statements**
**March 31, 2000**

### 7. HEDGING (CONTINUED)

As at March 31, 2000 the Board had $1,441,000 (1999 - $1,485,000) forward foreign exchange contracts outstanding.

Credit risk is the risk that a party to a forward foreign exchange contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risk by only dealing with major Canadian Chartered banks and Canadian subsidiaries of major foreign banks.

### 8. YEAR 2000

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the Board, including those related to its customers, suppliers, or other third parties, have been fully resolved.

### 9. PAYMENT TO MUNICIPALITIES

The Board was directed by Cabinet to contribute $5.0 million in 1999/2000 (1998/99 - $4.0 million), directly to municipalities, based upon a funding formula developed by the Ministry of the Environment (MOE). This contribution is to support MOE's waste diversion program. Cabinet further directed that $4.0 million be paid in fiscal year 2000/2001.

For the Year 1999

| Name | | Salary Paid | Total Gross | Taxable Benefits |
|---|---|---|---|---|
| BRANDT | ANDREW | 165,294.71 | 165,644.63 | 349.92 |
| SHERWOOD | GARFIELD | 144,101.40 | 144,523.84 | 422.44 |
| GEE | LARRY | 240,877.21 | 241,427.75 | 550.54 |
| KANE | MURRAY | 144,101.40 | 144,523.84 | 422.44 |
| BROWNING | ALEX | 144,101.40 | 144,523.84 | 422.44 |
| FLYNN | LARRY | 114,556.13 | 115,066.15 | 510.02 |
| WILCOX | DAVE | 179,047.54 | 179,401.58 | 354.04 |
| TUGHAN | WILLIAM | 100,671.00 | 100,979.34 | 308.34 |
| DUTTON | ROB | 113,367.68 | 113,717.84 | 350.16 |
| KENNEDY | WILLIAM | 114,997.21 | 115,349.29 | 352.08 |
| KER | J | 104,267.63 | 104,605.43 | 337.80 |
| CLUTE | PETER | 110,297.15 | 110,675.13 | 377.98 |
| FITZPATRICK | MARY | 142,717.77 | 143,140.21 | 422.44 |
| GREEN | MICHAEL | 110,415.71 | 110,767.79 | 352.08 |
| TATTLE | WENDY | 109,428.21 | 109,780.29 | 352.08 |
| LYONS | CAROL | 104,601.46 | 104,944.42 | 342.96 |
| YAZEJIAN | LEVON | 100,671.00 | 100,979.34 | 308.34 |
| KELLY | HUGH | 153,711.40 | 154,133.84 | 422.44 |
| RAMSAY | GARY | 104,001.63 | 104,317.61 | 315.98 |
| WILSON | MARIAN | 110,232.66 | 110,574.42 | 341.76 |
| MARTIN | JOHN | 144,101.40 | 144,523.84 | 422.44 |
| MARSHALL | DAVE | 108,897.54 | 110,322.18 | 1424.64 |
| ECKER | ROY | 111,402.54 | 111,811.18 | 408.64 |
| FISHER | R | 108,897.54 | 109,312.18 | 414.64 |
| BONIC | JACQUELINE | 106,556.59 | 106,898.35 | 341.76 |
| BUCK | PETER | 103,211.02 | 103,548.58 | 337.56 |
| ZACHAR | WAYNE | 101,218.26 | 101,553.78 | 335.52 |
| CARDINAL | NANCY | 111,442.53 | 111,790.17 | 347.64 |
| WILSON | T | 111,402.55 | 111,750.19 | 347.64 |

Metro Toronto Convention Centre / Palais des congres du Toronto metropolitain
255 Front Street West / 255 rue Front ouest / Toronto, Canada M5V 2W6 / (416) 585-8000 / www.mtccc.com

## Management's Responsibility for Financial Information

Management and the Board of Director's are responsible for the financial statements of Metro Toronto Convention Centre. These statements have been prepared in accordance with Canadian generally accepted accounting standards and, where appropriate, include amounts based on management's best estimates and judgement.

The significant accounting policies followed by the Metro Toronto Convention Centre are described in the Summary of Significant Accounting Policies contained in note 1 to the financial statements.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safe guarded and that reliable financial information was available on a timely basis. The system included policies and procedures that provide for appropriate delegation of authority and segregation of responsibilities.

The financial statements have been examined by KPMG LLP, independent external auditors appointed by the Board of Directors. The external auditor's responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted auditing standards.

The Metro Toronto Convention Centre, Board of Directors, through the Finance Committee, was responsible for ensuring that management fulfilled its responsibilities for financial reporting and internal controls. The Finance Committee met five times a year with Management and twice with external auditors, once to appoint them as our external auditors and the second time to satisfy itself that management had discharged its responsibility, and to review the financial statement before recommending approval by the Board of Directors.

There were no significant or unresolved issues between Management and the auditors concerning the 2000 financial statements. The External auditors had direct and full access to the Finance Committee, with and without the presence of Management to discuss the audit and their findings as to the integrity of the Metro Toronto Convention Centre's financial reporting and the internal controls.

The auditors confirmed that the Metro Toronto Convention Centre had a very clean audit.

Barry Smith
President & CEO

Dhanjee
Imtiaz Dhanjee
Director of Finance & Controls

## AUDITORS' REPORT

To the Directors of the Metropolitan Toronto Convention Centre Corporation

We have audited the balance sheet of Metropolitan Toronto Convention Centre Corporation as at March 31, 2000 and the statements of operations and surplus (deficiency) and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for 1999 were reported on by another firm of chartered accountants.

KPMG LLP

Chartered Accountants

Toronto, Canada

May 5, 2000

# METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Balance Sheet

March 31, 2000, with comparative figures for 1999

| | 2000 | 1999 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 3,087,900 | $ 190,212 |
| Customer deposits | 1,671,529 | 3,986,319 |
| Accounts receivable | 5,282,067 | 2,601,163 |
| Inventories | 490,849 | 247,949 |
| Prepaid expenses | 334,176 | 410,070 |
| | 10,866,521 | 7,435,713 |
| Other assets | 421,791 | 512,025 |
| Capital assets (note 2) | 151,888,855 | 154,146,626 |
| | $ 163,177,167 | $ 162,094,364 |
| **Liabilities and Surplus (Deficiency)** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 4,613,019 | $ 3,917,980 |
| Deferred revenue | 4,099,266 | 4,306,667 |
| Loan payable | – | 484,466 |
| | 8,712,285 | 8,709,113 |
| Temporary expansion financing (note 3) | 156,583,833 | 151,338,841 |
| Surplus (deficiency) | (2,118,951) | 2,046,410 |
| Commitments and contingencies (notes 3, 4 and 6) | | |
| | $ 163,177,167 | $ 162,094,364 |

See accompanying notes to financial statements.

On behalf of the Board:

________________ Director

________________ Director

# METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Statement of Operations and Surplus (Deficiency)

Year ended March 31, 2000, with comparative figures for 1999

| | 2000 | 1999 |
|---|---|---|
| Revenue | $ 42,805,917 | $ 37,566,743 |
| Gross operating profit | $ 23,480,152 | $ 20,926,342 |
| Operating expenses | 14,296,088 | 13,076,107 |
| Operating profit before the undernoted | 9,184,064 | 7,850,235 |
| Interest expense | 8,790,007 | 8,852,334 |
| Amortization, net of reallocation to operating expenses for parking garage of $89,710 (1999 - $133,779) | 4,559,418 | 4,510,190 |
| Deficiency of revenue over expenses | (4,165,361) | (5,512,289) |
| Surplus, beginning of year | 2,046,410 | 7,558,699 |
| Surplus (deficiency), end of year | $ (2,118,951) | $ 2,046,410 |

See accompanying notes to financial statements.

# METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Statement of Cash Flows

Year ended March 31, 2000, with comparative figures for 1999

| | 2000 | 1999 |
|---|---|---|
| Cash provided by (used in): | | |
| Operations: | | |
| Deficiency of revenue over expenses | $ (4,165,361) | $ (5,512,289) |
| Items not involving cash: | | |
| Amortization | 4,649,128 | 4,643,969 |
| Accrued interest | 7,745,007 | 8,852,334 |
| | 8,228,774 | 7,984,014 |
| Change in non-cash operating working capital: | | |
| Accounts receivable | (2,680,904) | 348,698 |
| Inventories | (242,900) | 47,672 |
| Prepaid expenses | 75,894 | 289,206 |
| Accounts payable and accrued liabilities | 695,039 | (220,331) |
| Deferred revenue, net of customer deposits | 2,107,389 | (357,368) |
| | 8,183,292 | 8,091,891 |
| Financing: | | |
| Decrease in accrued expansion costs payable | – | (1,738,146) |
| Repayment of loan payable | (484,466) | (545,311) |
| Increase in temporary expansion financing | – | 1,777,516 |
| Repayment of temporary expansion financing | (2,500,015) | (6,000,000) |
| | (2,984,481) | (6,505,941) |
| Investments: | | |
| Additions to other assets | (37,820) | – |
| Additions to capital assets | (2,263,303) | (3,452,321) |
| | (2,301,123) | (3,452,321) |
| Increase (decrease) in cash | 2,897,688 | (1,866,371) |
| Cash, beginning of year | 190,212 | 2,056,583 |
| Cash, end of year | $ 3,087,900 | $ 190,212 |

See accompanying notes to financial statements.

# METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements

Year ended March 31, 2000

---

The Metropolitan Toronto Convention Centre Corporation (the "Corporation") is a government business enterprise of the Ministry of Tourism of the Province of Ontario and incorporated as a corporation without share capital under the Corporations Act by letters patent dated February 4, 1981.

The Corporation operates a convention facility for conventions, trade shows, consumer shows, corporate and food and beverage events and parking facilities.

## 1. Significant accounting policies:

(a) Revenue recognition:

Revenue from the use of the Corporation's facilities is recognized when earned.

(b) Inventories:

Inventories are recorded at the lower of cost and net realizable value.

(c) Other assets:

Deferred development costs, included in other assets, represent expenses, net of pre-operating revenues, earned in the pre-operating period. The amount is being amortized on a straight-line basis over a period of five years.

(d) Capital assets:

Capital assets which are financed by government grants are shown net of applicable grants.

Expenses, net of any income earned, incurred in connection with the expansion of the convention centre have been capitalized and are included in building. The expansion of the building is now complete and the capitalized expenses are being amortized over their estimated economic life of 50 years.

# METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2000

1. **Significant accounting policies (continued):**

All other capital assets are recorded at cost and amortization is charged on a straight-line basis at the following rates:

| | |
|---|---|
| Furniture, fixtures and equipment | 5 - 10 years |
| Leasehold improvements | 5 - 20 years |

(e) Deferred revenue:

Deferred revenue represents customer deposits received for future use of the Corporation's facilities. Customer deposits meeting specific criteria are deposited into a separate bank account and earn interest to the date of the event. Deposits and interest are applied against the customer's billing.

(f) Financial instruments:

The Corporation does not use derivative financial instruments. The carrying values of customer deposits, accounts receivable, accounts payable and accrued liabilities approximate fair values due to their short-term nature. The carrying value of long-term debt approximates fair value as the floating interest rates approximate market interest rates.

(g) Pension plan:

The Corporation maintains a contributory defined benefit pension plan. The plan provides pensions based on length of service and final average earnings.

The cost of pension benefits earned by employee is determined using the projected benefit method prorated on service and is charged to expense as services are rendered. This cost reflects management's best estimates of the pension plan's expected investment yields, salary escalations, mortality of members, terminations and the ages at which members will retire. Adjustments arising from plan amendments, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service lives of the employees.

# METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2000

---

1. **Significant accounting policies (continued):**

(h) Income taxes:

The Corporation is a Crown agency incorporated under Bill 141, the Metropolitan Toronto Convention Centre Corporation Act, 1998 and is exempt from income taxes.

(i) Use of estimates:

The preparation of the Corporation's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting year. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates.

2. **Capital assets:**

| | | | 2000 | 1999 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Building | $ 225,664,349 | $ 9,024,585 | $ 216,639,764 | $ 220,162,061 |
| Furniture, fixtures and equipment | 11,042,586 | 7,904,354 | 3,138,232 | 3,179,834 |
| Leasehold improvements | 24,332,615 | 18,721,756 | 5,610,859 | 6,954,114 |
| | 261,039,550 | 35,650,695 | 225,388,855 | 230,296,009 |
| Less government grants | 85,914,604 | 12,414,604 | 73,500,000 | 76,149,383 |
| | $ 175,124,946 | $ 23,236,091 | $ 151,888,855 | $ 154,146,626 |

# METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2000

---

## 3. Temporary expansion financing:

| | 2000 | 1999 |
|---|---|---|
| Ontario Financing Authority | $ 156,583,833 | $ 151,338,841 |

The expansion project is being financed by the Ontario Financing Authority through a series of short-term discount promissory notes. The promissory notes outstanding as at March 31, 2000 have effective annual interest rates between 5.25% and 5.48% and maturity dates between April 10, 2000 and June 12, 2000. The expansion was completed in June 1997. The Ontario Financing Authority and the Corporation are in the process of reviewing the options of replacing some or all of this temporary financing facility with term debt, at which time, principal repayment terms will be finalized. Prior to the 1999 fiscal year, interest was capitalized to the expansion. Interest will continue to be accrued until repayment terms have been finalized. Repayments totalling $2,500,015 were made during the year.

The Corporation also has an obligation to fulfill certain commitments relating to the expansion project and, accordingly, has an issued letter of credit approximating $442,000 (1999 - $4,803,000) in support of these obligations.

## 4. Commitments:

The Corporation has entered into operating leases of varying terms. Future annual lease payments are as follows:

| | |
|---|---|
| 2001 | $ 1,475,175 |
| 2002 | 1,335,248 |
| 2003 | 1,319,077 |
| 2004 | 1,341,560 |
| 2005 | 1,364,494 |
| Thereafter | 100,227,028 |
| | $ 107,062,582 |

# METROPOLITAN TORONTO CONVENTION CENTRE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2000

---

## 5. Pension plan:

The present value of the accrued pension benefits and the market-related value of the net assets available to provide for those benefits, as of March 31, are as follows:

| | 2000 | 1999 |
|---|---|---|
| Accrued pension benefits | $ 5,147,949 | $ 3,477,511 |
| Pension fund assets | 5,835,677 | 5,007,405 |

The pension expense of $304,647 (1999 - $236,365) includes the amortization of net pension assets, as at January 1, 1999, over the expected average remaining service life of the employee group. The last actuarial valuation was prepared at January 1, 1999.

## 6. Contingencies:

There are several claims in respect of the expansion project which, if successful, could result in the net recovery of a portion of the costs related to the project. The outcome of these lawsuits cannot be determined at this time and no estimate of the net amounts recoverable by the Corporation have been accrued.

## 7. Statement of cash flows:

Cash paid for interest during the year was $1,045,000 (1999 - $1,045,000). No cash was paid for taxes as the Corporation is exempt from income tax.

## 8. Comparative figures:

Certain of the 1999 comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

| CAL<br>YEAR | SECTOR | EMPLOYER | EMPLOYEE NAME | POSITION | | SALARY | TAXABLE<br>BENEFITS |
|---|---|---|---|---|---|---|---|
| 1999 | AGENCY | M.T.C.C. | KWOK, ANNIE | DIRECTOR OF CATERING | | 155,000 | 780 |
| 1999 | AGENCY | M.T.C.C. | HOUGHTON JOHN | V.P. OF SALES & MARKETING | | 153,500 | 7,742 |
| 1999 | AGENCY | M.T.C.C. | LILLEYMAN TIM | DIRECTOR OF F&B | | 158,005 | 2,603 |
| 1999 | AGENCY | M.T.C.C. | FERNANDES ANGELO J | EXECUTIVE CHEF | | 147,000 | 893 |
| 1999 | AGENCY | M.T.C.C. | SMITH, BARRY | PRESIDENT | | 249,813 | 2,816 |
| 1999 | AGENCY | M.T.C.C. | GOLDENBERG, MARK | V.P. HUMAN RESOURCES | | 116,260 | 6,075 |
| 1999 | AGENCY | M.T.C.C. | STODDART, CAROLE | V.P. CUSTOMER SERVICE | | 98,712 | 9,109 |

I certify that the information provided on this Record is correct in accordance with the Public Sector Salary Disclosure Act 1996

## AUDITORS' REPORT

To The Niagara Parks Commission,
the Minister of Tourism
and the Provincial Auditor

Pursuant to the Niagara Parks Act which provides that the The Niagara Parks Commission, an agency of the Crown, shall be audited by the Provincial Auditor or an auditor designated by the Lieutenant Governor in Council, we have audited the balance sheet of The Niagara Parks Commission as at October 31, 1999 and the statements of operations, equity and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at October 31, 1999, the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Crawford, Smith and Swallow

Niagara Falls, Ontario
January 14, 2000

CRAWFORD, SMITH AND SWALLOW
CHARTERED ACCOUNTANTS LLP

## THE NIAGARA PARKS COMMISSION

**STATEMENT 1**

## BALANCE SHEET
October 31, 1999

| **Assets** | 1999<br>$ | 1998<br>$ |
|---|---|---|
| **Current Assets** | | |
| Cash | 22,226,134 | 18,746,408 |
| Accounts receivable | | |
| Land rent | 1,504,048 | 1,460,410 |
| Sundry | 1,503,209 | 944,379 |
| Inventories | | |
| Saleable merchandise | 4,253,429 | 3,636,986 |
| Maintenance and other supplies | 896,628 | 614,563 |
| Prepaid expenses | 123,845 | 119,297 |
| | 30,507,293 | 25,522,043 |
| **Fixed Assets** - note 2 | 99,436,806 | 93,961,788 |
| | **129,944,099** | **119,483,831** |
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Accounts payable | 4,950,656 | 3,691,512 |
| Accrued payroll | 741,272 | 545,647 |
| Current portion of mortgage payable | 300,000 | |
| | 5,991,928 | 4,237,159 |
| **Mortgage Payable** - note 3 | 600,000 | |
| **Commitments** - note 4 | | |
| **Contingencies** - note 5 | | |
| **Equity** - Statement 2 | 123,352,171 | 115,246,672 |
| | **129,944,099** | **119,483,831** |

Signed on behalf of the Commission:

_______________ Chairman

_______________ Vice-chairman

See accompanying notes

## THE NIAGARA PARKS COMMISSION

### STATEMENT 2

### STATEMENT OF EQUITY
for the year ended October 31, 1999

| | 1999<br>$ | 1998<br>$ |
|---|---|---|
| **Equity, Beginning of Year** | 115,246,672 | 105,281,223 |
| **Net Income for the Year** - Statement 3 | 8,105,499 | 9,965,449 |
| **Equity, End of Year** | 123,352,171 | 115,246,672 |

See accompanying notes

## THE NIAGARA PARKS COMMISSION

STATEMENT 3

## STATEMENT OF OPERATIONS

for the year ended October 31, 1999

| | 1999<br>$ | 1998<br>$ |
|---|---|---|
| **Income** | | |
| Gift shops, restaurants and attractions - Schedule 1 | 64,486,732 | 60,454,897 |
| Land rent | 5,038,197 | 4,951,844 |
| Commissions, rentals and fees | 2,642,181 | 2,504,436 |
| Premium on United States funds - net | 567,636 | 582,712 |
| Interest | 704,159 | 474,054 |
| Gain on disposal of fixed assets - net | 69,492 | 44,541 |
| Sundry income | 17,970 | 13,370 |
| | 73,526,367 | 69,025,854 |
| **Expenses** | | |
| Gift shops, restaurants and attractions - Schedule 1 | | |
| Cost of goods sold | 15,453,796 | 14,864,217 |
| Operating expenses | 23,358,314 | 21,202,086 |
| Depreciation | 2,462,261 | 2,360,781 |
| Maintenance | 15,299,064 | 14,009,726 |
| Administrative and general | 4,090,301 | 3,792,286 |
| Advertising and public relations | 2,303,907 | 1,043,378 |
| Bank charges and interest | 7,259 | 6,958 |
| Loan interest | | 25,727 |
| | 62,974,902 | 57,305,159 |
| **Net Income for the Year before Depreciation of Non-Income Producing Assets and Unusual Item** | 10,551,465 | 11,720,695 |
| **Depreciation of Non-Income Producing Assets** | 2,445,966 | 2,170,246 |
| **Net Income before Unusual Item** | 8,105,499 | 9,550,449 |
| **Unusual Item** | | 415,000 |
| **Net Income for the Year** | 8,105,499 | 9,965,449 |

See accompanying notes

## THE NIAGARA PARKS COMMISSION

STATEMENT 4

## STATEMENT OF CASH FLOWS

for the year ended October 31, 1999

| | 1999<br>$ | 1998<br>$ |
|---|---|---|
| **Operating Activities** | | |
| Net income for the year | 8,105,499 | 9,965,449 |
| Charges against income not requiring an outlay of funds | | |
| - depreciation | 5,014,864 | 4,621,611 |
| - gain on disposal of fixed assets - net | (69,492) | (44,541) |
| | 13,050,871 | 14,542,519 |
| Net change in non-cash working capital balances related to operations | (50,755) | (836,705) |
| Funds provided by operating activities | 13,000,116 | 13,705,814 |
| **Investing Activities** | | |
| Fixed asset acquisitions | (10,544,265) | (6,614,498) |
| Proceeds on sale of fixed assets | 123,875 | 81,373 |
| Funds used by investing activities | (10,420,390) | (6,533,125) |
| **Financing Activities** | | |
| Proceeds (Repayment) of long-term debt | 900,000 | (1,800,000) |
| **Increase in Cash Position** | 3,479,726 | 5,372,689 |
| **Cash Position, Beginning of Year** | 18,746,408 | 13,373,719 |
| **Cash Position, End of Year** | **22,226,134** | **18,746,408** |

See accompanying notes

## THE NIAGARA PARKS COMMISSION

SCHEDULE 1

## SCHEDULE OF OPERATIONS

## GIFT SHOPS, RESTAURANTS, AND ATTRACTIONS

for the year ended October 31, 1999

| | 1999<br>$ | 1998<br>$ |
|---|---:|---:|
| **Income** | | |
| Souvenirs, china and post cards | 24,556,517 | 22,186,113 |
| Food and refreshments | 14,962,166 | 14,315,344 |
| Beer, liquor and wine | 1,740,708 | 1,676,606 |
| Confectionery | 3,044,262 | 2,761,248 |
| Fares and admission | 18,951,333 | 18,318,348 |
| Rentals | 403,652 | 397,927 |
| Sundry | 828,094 | 799,311 |
| | 64,486,732 | 60,454,897 |
| **Cost of Goods Sold** | | |
| Souvenirs, china and post cards | 9,455,563 | 9,299,502 |
| Food and refreshments | 4,049,205 | 3,692,932 |
| Beer, liquor and wine | 482,665 | 450,747 |
| Confectionery | 1,214,172 | 1,186,221 |
| Sundry | 252,191 | 234,815 |
| | 15,453,796 | 14,864,217 |
| **Gross Profit** | 49,032,936 | 45,590,680 |
| **Operating Expenses** | | |
| Salaries and wages | 11,247,699 | 10,345,906 |
| Employee benefits | 2,072,998 | 2,047,414 |
| Advertising | 798,835 | 732,401 |
| Fuel, power, water and laundry | 855,306 | 791,119 |
| General | 3,378,719 | 3,066,838 |
| Maintenance of buildings, equipment and vehicles | 2,196,141 | 1,912,749 |
| Maintenance of grounds | 785,085 | 553,243 |
| Grants in lieu of municipal taxes | 880,000 | 894,179 |
| Distribution Centre expense | 1,143,531 | 858,237 |
| | 23,358,314 | 21,202,086 |
| **Net Income before Depreciation** | 25,674,622 | 24,388,594 |
| **Depreciation of Income Producing Assets** | 2,462,261 | 2,360,781 |
| **Net Income Exclusive of any Portion of the Administrative Overhead of the Commission** | **23,212,361** | **22,027,813** |

See accompanying notes

## THE NIAGARA PARKS COMMISSION

### NOTES TO FINANCIAL STATEMENTS

for the year ended October 31, 1999

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1. **Significant Accounting Policies**

Basis of accounting

The financial statements of the Commission are the representations of management prepared in accordance with generally accepted accounting principles in Canada, consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgement in the light of available information. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

Inventories

Inventories of saleable merchandise are valued at lower of cost (first-in, first-out) and net realizable value.

Fixed assets

All fixed assets are recorded at cost. Depreciation has been recorded using the straight- line method, with rates from 2.5 to 20 per cent for buildings, roadways and structures, 10 to 25 per cent for equipment and furnishings and from 8 to 40 per cent for vehicles.

2. **Fixed Assets**

| | Cost<br>$ | Accumulated Depreciation<br>$ | 1999<br>$ | 1998<br>$ |
|---|---|---|---|---|
| Land | 13,443,130 | | 13,443,130 | 12,017,533 |
| Buildings, roadways and structures | 116,155,248 | 39,286,993 | 76,868,255 | 74,665,108 |
| Equipment and furnishings | 16,228,726 | 10,237,589 | 5,991,137 | 5,323,112 |
| Vehicles | 7,689,074 | 6,643,037 | 1,046,037 | 907,353 |
| | 153,516,178 | 56,167,619 | 97,348,559 | 92,913,106 |
| Capital works in progress | 2,088,247 | | 2,088,247 | 1,048,682 |
| | 155,604,425 | 56,167,619 | 99,436,806 | 93,961,788 |

## THE NIAGARA PARKS COMMISSION

### NOTES TO FINANCIAL STATEMENTS
for the year ended October 31, 1999

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### 3. Mortgage Payable

| | 1999<br>$ | 1998<br>$ |
|---|---|---|
| Mortgage Payable, repayable in annual installments of $ 300,000, interest free, maturing January, 2002, secured by certain lands owned by the Commission | 900,000 | |
| Portion due within one year | (300,000) | |
| | **600,000** | |

The principal payments of the mortgage payable are due as follows:

| | $ |
|---|---|
| 2000 | 300,000 |
| 2001 | 300,000 |
| 2002 | 300,000 |

### 4. Commitments

The Commission is committed to spending approximately $ 19,000,000 on capital projects in the next year.

The Commission has entered into agreements to acquire certain lands in the amount of $ 160,000.

### 5. Contingencies

The Commission is in litigation pertaining to certain claims for which the likelihood of loss is not determinable and the amount not reasonably estimable. Accordingly, no provision for these claims is reflected in the financial statements.

### 6. Subsequent Event

On November 19, 1999, the Commission sold a parcel of land formerly known as the Fallsview Parking Lot to the Ontario Realty Corporation for $ 830,539. The original cost of this parcel was approximately $ 70,000. The net gain will be reflected in the Statement of Operations for the year ending October 31, 2000.

## THE NIAGARA PARKS COMMISSION

**NOTES TO FINANCIAL STATEMENTS**
for the year ended October 31, 1999

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### 7. Pension Plan

The Commission provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario.

The Commission's obligations related to the PSPF and OPSEU Pension Fund was $ 1,119,428 (1998 - $ 1,378,896) and is included in the administrative and general expenses in the Statement of Operations and employee benefits in the Schedule of Operations - Gift Shops, Restaurants and Attractions.

### 8. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

### 9. Financial Instruments

Credit Risk

The Commission is exposed to a credit risk by its customers. However, because of the large number of customers, credit risk concentration is reduced to a minimum.

Currency Risk

The Commission realizes approximately 17.98% of its sales in foreign currency. Consequently, some assets and revenues are exposed to foreign exchange fluctuations.

## 10. Surplus Funds

Pursuant to Section 16(2) of the Niagara Parks Act any surplus moneys shall, on the order of the Lieutenant Governor in Council, be paid to the Minister of Finance and shall form part of the Consolidated Revenue Fund.

### Employees Paid $100,000.00 or More in 1998

| NAME | POSITION | SALARY PAID | TAXABLE BENEFITS |
|---|---|---|---|
| R.F. Brooker | Assistant Genaral Manager | $107,330.24 | 300.48 |

Prepared in accordance with the *Public Sector Salary Disclosure Act*, 1996.

# AUDITORS' REPORT

To the Board of Directors of Ontario Casino Corporation
and to the Chair of Management Board of Cabinet

We have audited the consolidated balance sheet of Ontario Casino Corporation as at March 31, 2000 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada

June 1, 2000

# ONTARIO CASINO CORPORATION

Consolidated Balance Sheet
(In thousands of dollars)

March 31, 2000, with comparative figures for 1999

| | 2000 | 1999 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents (note 2) | $ 301,001 | $ 245,243 |
| Accounts receivable | 14,113 | 11,702 |
| Inventories | 4,523 | 4,725 |
| Prepaid expenses and other | 10,095 | 10,762 |
| | 329,732 | 272,432 |
| Capital assets (note 3) | 782,062 | 733,393 |
| Pre-opening expenditures, net of accumulated amortization of $60,657 (1999 - $50,031) | – | 10,626 |
| Assets contributed to Chippewas of Mnjikaning and deferred charges (note 4) | 17,401 | 21,555 |
| Cash and short-term investments held in First Nations investment account (note 5) | 410,098 | 254,543 |
| | $ 1,539,293 | $ 1,292,549 |
| **Liabilities and Provincial Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 95,750 | $ 128,171 |
| Due to Windsor Casino Limited (note 6) | – | 21,922 |
| Due to operators (note 6) | 43,600 | 48,698 |
| Due to Chippewas of Mnjikaning (note 6) | 4,238 | 775 |
| Current portion of long-term debt (note 7) | 9,044 | 9,428 |
| | 152,632 | 208,994 |
| Long-term debt (note 7) | 6,331 | 16,028 |
| Due to First Nations (note 5) | 410,098 | 254,543 |
| Provincial equity: | | |
| Retained earnings | 880,150 | 746,323 |
| Reserves (note 2) | 90,082 | 66,661 |
| | 970,232 | 812,984 |
| | $ 1,539,293 | $ 1,292,549 |

Commitments and contingencies (notes 5, 6, 11 and 12)
Subsequent event (note 13)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Ron D. Barbaro, Chair

Joanne De Laurentiis, Director

# ONTARIO CASINO CORPORATION

Consolidated Statement of Operations
(In thousands of dollars)

Year ended March 31, 2000, with comparative figures for 1999

| | 2000 | 1999 |
|---|---|---|
| Revenues: | | |
| Gaming | $ 2,017,347 | $ 1,979,433 |
| Non-gaming | 213,855 | 193,339 |
| Investment income | 9,526 | 8,271 |
| | 2,240,728 | 2,181,043 |
| Less promotional allowances | 100,614 | 83,971 |
| | 2,140,114 | 2,097,072 |
| Costs and expenses: | | |
| Gaming: | | |
| Win tax (note 8) | 403,346 | 395,865 |
| Operations | 417,183 | 360,972 |
| | 820,529 | 756,837 |
| Non-gaming | 136,454 | 108,695 |
| Operators' fees (note 6) | 124,739 | 98,274 |
| General and administrative | 162,230 | 153,868 |
| Amortization | 96,012 | 94,151 |
| Lease and rental | 12,213 | 17,365 |
| Interest | 1,721 | 7,602 |
| Goods and Services Tax | 34,637 | 29,001 |
| Other | 35,022 | 75,298 |
| | 1,423,557 | 1,341,091 |
| Net income | $ 716,557 | $ 755,981 |

See accompanying notes to consolidated financial statements.

# ONTARIO CASINO CORPORATION

Consolidated Statement of Retained Earnings
(In thousands of dollars)

Year ended March 31, 2000, with comparative figures for 1999

| | 2000 | 1999 |
|---|---|---|
| Retained earnings, beginning of year | $ 746,323 | $ 645,906 |
| Net income | 716,557 | 755,981 |
| Distributions to the Province of Ontario | (417,772) | (475,524) |
| Distributions to First Nations investment account (note 5) | (141,537) | (168,033) |
| Transfers to reserves, net: | | |
| Capital renewals reserve | (6,012) | (6,094) |
| Operating reserve | (14,845) | (3,441) |
| Severance reserve | (2,564) | (2,472) |
| | (23,421) | (12,007) |
| Retained earnings, end of year | $ 880,150 | $ 746,323 |

See accompanying notes to consolidated financial statements.

# ONTARIO CASINO CORPORATION

Consolidated Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2000, with comparative figures for 1999

| | 2000 | 1999 |
|---|---|---|
| Cash derived from (applied to): | | |
| Operating activities: | | |
| Net income | $ 716,557 | $ 755,981 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Amortization | 96,012 | 94,151 |
| Loss on disposal of capital assets | 1,157 | – |
| Unrealized foreign exchange (gain) loss | (834) | 1,836 |
| Change in non-cash operating items: | | |
| Accounts receivable | (2,411) | 1,199 |
| Inventories | 202 | 683 |
| Prepaid expenses and other | 667 | 2,607 |
| Accounts payable and accrued liabilities | (32,421) | 18,110 |
| Due to operators | (5,098) | (14,822) |
| Due to Chippewas of Mnjikaning | 3,463 | 23 |
| | 777,294 | 859,768 |
| Financing activities: | | |
| Repayments to Windsor Casino Limited | (21,922) | (73,002) |
| Repayments of long-term debt | (9,247) | (50,965) |
| | (31,169) | (123,967) |
| Investing activities: | | |
| Acquisition of capital assets | (131,939) | (151,149) |
| Pre-opening expenditures | (431) | (7,622) |
| Deferred charges | 998 | (2,337) |
| Proceeds on return of Northern Belle Riverboat | – | 6,713 |
| Proceeds on disposal of capital assets | 313 | 243 |
| | (131,059) | (154,152) |
| Other: | | |
| Distributions to Province of Ontario | (417,771) | (475,524) |
| Distribution to First Nations investment account | (141,537) | (168,033) |
| | (559,308) | (643,557) |
| Increase (decrease) in cash and cash equivalents | 55,758 | (61,908) |
| Cash and cash equivalents, beginning of year | 245,243 | 307,151 |
| Cash and cash equivalents, end of year | $ 301,001 | $ 245,243 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | $ 1,948 | $ 15,975 |

See accompanying notes to consolidated financial statements.

# ONTARIO CASINO CORPORATION

Notes to Consolidated Financial Statements
(Tabular amounts in thousands of dollars)

Year ended March 31, 2000

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Ontario Casino Corporation (the "Corporation") is a Crown agency of the Ontario government and is responsible for conducting and managing gaming at Ontario's three commercial casinos. The Corporation commenced active operations on April 1, 1994 and presently operates the following casinos:

| Casinos | Commencement of operations |
|---|---|
| Casino Rama | July 31, 1996 |
| Casino Niagara | December 9, 1996 |
| Casino Windsor | May 17, 1994 |

On December 21, 1999 the Ontario Gaming and Corporation Act, 1999 was passed in the legislature, with an effective date of April 1, 2000. On that date, the Corporation combined operations with the Ontario Lottery Corporation. The resultant corporation continues to carry on business as the Ontario Lottery and Gaming Corporation ("OLGC"). This corporation continues the management of lottery games, casinos and racetrack slot operations in Ontario.

The Corporation conducts the operation and manages the assets of Casino Rama for the benefit of the First Nations of Ontario. The excess cash flow derived from this casino is distributed to a First Nation Fund.

## 1. Significant accounting policies:

### (a) Basis of consolidation:

The consolidated financial statements combine the assets, liabilities and results of operations of the Corporation and the commercial casinos, and consolidate the assets, liabilities and results of operations of the Ontario Gaming Assets Corporation, a wholly-owned subsidiary of the Corporation incorporated on July 9, 1998. The Ontario Gaming Assets Corporation was established to purchase capital assets which are leased to the Corporation.

### (b) Gaming revenue and promotional allowances:

Gaming revenue represents the net win from gaming activities, which is the difference between amounts earned through winnings and payouts by the casino. The retail value of accommodation, food, beverage and other items provided on a complimentary basis to customers has been included in non-gaming revenues and a corresponding amount has been deducted as promotional allowances. Costs of providing promotional allowances have been included in non-gaming expenses.

# ONTARIO CASINO CORPORATION

Notes to Consolidated Financial Statements (continued)
(Tabular amounts in thousands of dollars)

Year ended March 31, 2000

1. **Significant accounting policies (continued):**

(c) Inventories:

Inventories are stated at the lower of cost and net realizable value.

(d) Capital assets:

Capital assets are stated at cost. Amortization is provided and is calculated using the following annual rates:

| | |
|---|---|
| Building, improvements and other development costs | Straight line over 10 to 50 years |
| Furniture, fixtures and equipment | Straight line over 3 to 10 years |

Capital assets are amortized when brought into operations.

Interest on debt to finance major additions to capital assets is capitalized during the construction phase. The interest cost is determined using the interest rate on incremental debt incurred by the Corporation to finance these capital assets. Interest capitalized is amortized over the same period as the related asset.

(e) Pre-opening expenditures:

Certain expenditures, consisting of compensation, consulting and other costs incurred in connection with the development and opening of casinos were deferred and amortized over periods ranging from one to three years.

(f) Assets contributed to Chippewas of Mnjikaning and deferred charges:

Assets contributed to Chippewas of Mnjikaning, consisting primarily of funding for the construction of a community centre, senior centre and certain infrastructure facilities, are amortized over the term of the related development and operating agreement. Deferred charges consist primarily of financing fees which are amortized over a period of three years.

# ONTARIO CASINO CORPORATION

Notes to Consolidated Financial Statements (continued)
(Tabular amounts in thousands of dollars)

Year ended March 31, 2000

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1. **Significant accounting policies (continued):**

(g) Foreign currency translation:

Monetary assets and liabilities are translated at the year-end exchange rates. Non-monetary assets and liabilities are translated at the historical exchange rates. Statement of operations items are translated at the rate of exchange in effect as at the transaction date. Translation gains and losses are included in income in the period in which they arise, except for translation gains and losses relating to long-term debt, which are deferred and amortized over the estimated term of repayment.

(h) Use of estimates:

In conformity with generally accepted accounting principles, management of the Corporation has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period to prepare these financial statements. Actual results could differ from those estimates.

(i) Statement of Cash Flows:

Effective April 1, 1999, the Corporation adopted the new accounting requirements of The Canadian Institute of Chartered Accountants ("CICA") for cash flow statements. Under these new requirements, the statement of cash flows provides information with respect to changes in cash and cash equivalents and classifies cash flows during the period arising from operating, financing and investing activities. Previously, the Corporation presented a statement of changes in financial position, which provided information classified in a similar manner to the new statement of cash flows. The prior year results have been restated to conform with the presentation adopted for the current year.

# ONTARIO CASINO CORPORATION

Notes to Consolidated Financial Statements (continued)
(Tabular amounts in thousands of dollars)

Year ended March 31, 2000

## 2. Cash and cash equivalents:

Cash and cash equivalents include the below noted amounts which are held in separate bank accounts:

| | 2000 | 1999 |
|---|---|---|
| Capital renewals reserve | $ 38,409 | $ 32,397 |
| Operating reserve | 37,780 | 22,935 |
| Severance reserve | 13,893 | 11,329 |
| | $ 90,082 | $ 66,661 |

The Corporation has established cash reserves in accordance with various operating agreements for the following purposes:

- Capital renewals reserve - for capital asset additions other than normal repairs or major improvements.
- Operating reserve - to satisfy specified obligations in the event that revenue will be insufficient to meet such obligations.
- Severance reserve - to satisfy certain obligations of the Corporation arising from termination or layoff of employees of an operator in connection with the termination of the operator.

## 3. Capital assets:

| | | | 2000 | 1999 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Land | $ 95,497 | $ – | $ 95,497 | $ 59,863 |
| Building, improvements and other development costs | 601,386 | 111,205 | 490,181 | 511,109 |
| Furniture, fixtures and equipment | 263,025 | 114,744 | 148,281 | 160,842 |
| Construction in progress | 48,103 | – | 48,103 | 1,579 |
| | $1,008,011 | $ 225,949 | $ 782,062 | $ 733,393 |

# ONTARIO CASINO CORPORATION

Notes to Consolidated Financial Statements (continued)
(Tabular amounts in thousands of dollars)

Year ended March 31, 2000

## 3. Capital assets (continued):

During the year, the Corporation capitalized interest amounting to nil (1999 - $1,530,000).

Construction in progress includes $23,363,000 in costs related to the construction of a slot facility at Great Blue Heron, which commenced operations on May 5, 2000, and $23,754,000 in costs incurred for an expansion project at Casino Rama.

## 4. Assets contributed to Chippewas of Mnjikaning and deferred charges:

| | | | 2000 | 1999 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net carrying amount | Net carrying amount |
| Assets contributed to Chippewas of Mnjikaning | $ 26,878 | $ 9,632 | $ 17,246 | $ 19,963 |
| Deferred financing fees | 8,620 | 8,465 | 155 | 1,592 |
| | $ 35,498 | $ 18,097 | $ 17,401 | $ 21,555 |

## 5. First Nations investment account:

On February 21, 2000 an agreement was reached between the First Nations of Ontario and the Province of Ontario for the distribution of excess cash flow resulting from the operation of Casino Rama. The excess cash flow is held in a demand account with the Province of Ontario Savings Office and is to be distributed in the spring 2000 to the First Nations of Ontario.

| | 2000 | 1999 |
|---|---|---|
| The investment account balance consists of: | | |
| Balance, beginning of year | $ 254,543 | $ 84,197 |
| Distribution to First Nations investment account | 141,537 | 168,033 |
| Interest earned | 15,661 | 7,229 |
| Atherley Narrows Bridge expense | – | (4,500) |
| Distribution during year | (1,643) | (316) |
| Other expenses | – | (100) |
| Balance, end of year | $ 410,098 | $ 254,543 |

Fund distributions are made for sundry legal and meeting expenses related to the Fund and paid-out on behalf of the First Nations Chiefs of Ontario.

# ONTARIO CASINO CORPORATION

Notes to Consolidated Financial Statements (continued)
(Tabular amounts in thousands of dollars)

Year ended March 31, 2000

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## 6. Related party transactions:

(a) Under the terms of the development and operating agreements for each of the casinos, the operator is entitled to receive an operator's fee calculated as a percentage of gross revenues and a percentage of net operating margin, both as defined in each of the related development and operating agreements.

(b) Under the terms of the development and operating agreement for Casino Rama, Chippewas of Mnjikaning receive an annual fee of $4,500,000, adjusted for inflation each year, relating to development and ongoing operating services. Other Chippewas of Mnjikaning charges amounting to $4,293,000 (1999 - $3,800,000) were also incurred during the year in connection with land and building rental, snow removal, water and sewer and law enforcement services. In addition, the lands used for the Casino Rama complex are leased by Casino Rama Inc. from Her Majesty the Queen in Right of Canada under a 25-year ground lease. Rent payable under this ground lease is $3,500,000 annually adjusted annually for inflation and is paid out of gross revenues of the Casino Rama complex to Chippewas of Mnjikaning in accordance with instructions from Indian and Northern Affairs Canada as representative for Her Majesty the Queen.

(c) Under the terms of the development and cost-sharing agreement between the Corporation and Windsor Casino Limited, a portion of the construction costs of the permanent casino complex in Windsor was financed by the operator. Interest payments to the operator on the construction loan was calculated at 10% per annum compounded monthly on the outstanding balance of the loan and amounted to $236,000 (1999 - $12,876,000) during the year .

# ONTARIO CASINO CORPORATION

Notes to Consolidated Financial Statements (continued)
(Tabular amounts in thousands of dollars)

Year ended March 31, 2000

## 7. Long-term debt:

| | 2000 | 1999 |
|---|---|---|
| Advance from CHC Casinos Canada Limited | $ 15,375 | $ 25,456 |
| Less current portion | 9,044 | 9,428 |
| | $ 6,331 | $ 16,028 |

CHC Casinos Canada Limited, the operator of Casino Rama, advanced U.S. $25,000,000 toward the initial development of the casino. The advance bears interest at bank prime plus 1% per annum. The outstanding balance as of March 31, 2000 amounted to U.S. $10,625,000 (1999 - U.S. $16,875,000). The operator is entitled to quarterly repayments based on a formula contained in the development and operating agreement for this casino. Interest for the year amounted to $1,463,000 (1999 - $2,282,000).

The advance from the operator is repayable in U.S. dollars and is, therefore, exposed to foreign currency fluctuations. Casino Rama has not entered into any foreign exchange contracts to minimize the exposure to foreign currency fluctuations.

The principal repayments of the long-term debt expected to be made over the next two years are approximately as follows:

| Year ending March 31: | |
|---|---|
| 2001 | $ 9,044 |
| 2002 | 6,331 |

## 8. Win tax:

The Corporation remits win tax to the Province of Ontario weekly. This tax amounts to 20% of gaming revenue.

# ONTARIO CASINO CORPORATION

Notes to Consolidated Financial Statements (continued)
(Tabular amounts in thousands of dollars)

Year ended March 31, 2000

## 9. Corporate head office expenses:

Included in costs and expenses are the expenses of the Corporation's head office as follows:

| | 2000 | 1999 |
|---|---|---|
| Salaries, wages and benefits | $ 2,384 | $ 1,661 |
| Transportation and communication | 613 | 603 |
| Purchased services | 3,733 | 3,961 |
| Amortization | 321 | 346 |
| Improvements | – | 38,500 |
| Other | (950) | (847) |
| | 6,101 | 44,224 |
| Less amounts recoverable from Casino Rama | 900 | 900 |
| | $ 5,201 | $ 43,324 |

Included in improvements for 1999 are $25,000,000 for the Windsor Art Gallery restoration and $13,500,000 for the Atherley Bridge improvements.

## 10. Pension plans:

The operators of the casinos have created defined contribution pension plans for their salaried, hourly and executive employees. The casinos are required to contribute 2% of an employee's base earnings under the salaried and hourly pension plans and 3% of an employee's base earnings under the executive pension plans. Employee basic contributions of up to 2% for the hourly pension plans and up to 3% of base earnings for the salaried and executive pension plans are permitted. The casinos match the basic contributions made by an employee. Employee voluntary contributions of up to 12% of base earnings under the hourly pension plans, up to 10% of base earnings under the salaried pension plans and up to 9% of base earnings under the executive pension plans are permitted. The pension expense for the year amounted to $13,344,000 (1999 - $10,935,000).

# ONTARIO CASINO CORPORATION

Notes to Consolidated Financial Statements (continued)
(Tabular amounts in thousands of dollars)

Year ended March 31, 2000

## 11. Contingencies:

(a) The Corporation is from time to time involved in various legal proceedings of a character normally incidental to its business. The Corporation believes that the outcome of these outstanding claims will not have a material impact on these financial statements. Settlements, if any, concerning these contingencies will be accounted for as a charge to the statement of operations in the period in which the settlement occurs.

(b) The lease agreement between the Corporation and Maple Leaf Entertainment Inc. for the interim casino complex in Niagara Falls, Ontario, provides that the Corporation shall repair any damage caused by the removal of gaming equipment and other trade fixtures. The nature and expected costs of this removal of assets are not determinable at this time. Accordingly, no accrual for these costs has been provided for in the financial statements. The Corporation is not required to restore the premises to its original state when the lease expires.

## 12. Commitments:

(a) In connection with the acquisition of the land site for the Permanent Casino Complex in Windsor, Ontario, the OCC agreed to provide the City of Windsor (the "City") with a fixed return over 20 years with payments, commencing May 1, 1998, in the amount of $2,600,000 per annum for the first ten years and $3,000,000 per annum for the last ten years. Approximately $2,600,000 (1999 - $2,383,000) was expensed in the year. In addition, the OCC is obligated to reimburse the City for OCC's share of certain infrastructure costs. These infrastructure costs, which amounted to approximately $5,200,000 (1999 - $14,200,000) have been expensed in these financial statements.

(b) The Corporation is committed to rental payments for its leased premises and equipment under leases, expiring up to 2006. Minimum future annual lease payments are as follows:

| | Operating leases |
|---|---|
| Year ending March 31: | |
| 2001 | $ 4,726 |
| 2002 | 1,909 |
| 2003 | 1,231 |
| 2004 | 825 |
| Thereafter | 493 |
| Total minimum lease payments | $ 9,184 |

# ONTARIO CASINO CORPORATION

Notes to Consolidated Financial Statements (continued)
(Tabular amounts in thousands of dollars)

Year ended March 31, 2000

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## 12. Commitments (continued):

(c) On May 20, 1999 the Corporation signed a Master Development Agreement with Falls Management Company for the construction and development of a permanent casino complex in Niagara Falls. Land for this permanent casino was purchased in the current year for $35,600,000. The OCC is presently in negotiations with the City of Niagara Falls regarding compensatory payments.

## 13. Subsequent event:

Casino Rama intends to spend a total of approximately $265,000,000 to expand the existing casino and construct a hotel and entertainment centre, subject to securing appropriate financing to fund the development. Casino Rama Inc., a bare trustee for the Chippewas of Rama First Nation, is presently in negotiations to obtain a $225,000,000 non-revolving term credit facility from a Canadian chartered bank to finance the expansion and construction. Upon successful completion of the financing, OLGC, Chippewas of Mnjikaning and the operator of Casino Rama will finalize an amendment of the development and operating agreement relating to the operation of the casino to extend its term through to July 31, 2011.

## 14. Comparative amounts:

Certain of the 1999 figures presented for comparative purposes have been reclassified to conform with the current year's presentation.

| Title | Salary | Benefits |
|---|---|---|
| Ron D. Barbaro<br>Chair and Chief Executive Officer<br>OCC/OLC | $301,319.21 | $6,741.54 |
| Brian Wood<br>Chief Operating Officer<br>OCC/OLC | $181,146.65 | $6,608.19 |
| Earl Dalton<br>V.P. Finance and Administration<br>OLC/OCC | $165,504.17 | $8,573.48 |
| Walter Fioravanti<br>V.P. Human Resources<br>OLC/OCC | $141,068.06 | $9,320.21 |
| David Maddocks<br>Senior Manager, Projects<br>OCC | $122,125.61 | $2,842.84 |
| Ingrid Peters<br>V.P. and General Counsel<br>OCC/OLC | $121,061.63 | $3,369.41 |
| Antonio Carvalho<br>V.P. Commercial Casinos<br>OCC | $120,418.92 | $ 345.78 |

Ontario Clean Water Agency 1999

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Management and the Board of Directors are responsible for the financial statements and all other information presented in this Annual Report. The financial statements have been prepared by Management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on Management's best estimates and judgements.

The Ontario Clean Water Agency is dedicated to the highest standards of integrity in its business. To safeguard Agency assets, the Agency has a sound and dynamic set of internal financial controls and procedures that balance benefits and costs. Management has developed and maintains financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information in accordance with the bylaws of the Agency. Internal audits are conducted to assess management systems and practices, and reports are issued to the Senior Management Committee.

The Board of Directors ensures that Management fulfills its responsibilities for financial information and internal control. The Board of Directors meets quarterly to oversee the financial activities of the Agency and at least annually to review the financial statements and the external auditors' report thereon, and recommend them to the Minister of the Environment for approval.

The financial statements have been examined by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

SHEILA M. WILLIS
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Louise M Wickson
LOUISE MORROW WICKSON
VICE PRESIDENT, FINANCE AND CORPORATE SERVICES

## AUDITOR'S REPORT

*To the Ontario Clean Water Agency,*
*the Minister of the Environment*
*and the Minister of Finance*

I have audited the balance sheet of the Ontario Clean Water Agency as at December 31, 1999 and the statements of income and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at December 31, 1999 and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting principles.

K W Leishman

TORONTO, ONTARIO
FEBRUARY 25, 2000

K.W. LEISHMAN, CA
ASSISTANT PROVINCIAL AUDITOR

Ontario Clean Water Agency 1999

## BALANCE SHEET

| As at December 31 | *(in thousands of dollars)* 1999 | 1998 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and short-term investments | **$131,539** | $124,700 |
| Accounts receivable, net | | |
| Municipalities and other customers | **9,447** | 6,877 |
| Ministry of the Environment | **2,131** | 115 |
| Goods and services tax receivable | **556** | 655 |
| Current portion of investments receivable: | | |
| Water and wastewater facilities (note 2) | **2,194** | 2,378 |
| Facilities under construction (note 3) | **7,915** | 9,096 |
| | **153,782** | 143,821 |
| Financial assets: | | |
| Investments receivable for water and wastewater facilities (note 2) | **56,272** | 67,576 |
| Investments receivable for facilities under construction (note 3) | **5,211** | 13,225 |
| Loans receivable – top-up loan (note 4) | **784** | 850 |
| Provincial assistance advances (note 5) | **5,775** | 467 |
| Fixed assets, net (note 6) | **13,045** | 3,134 |
| | **81,087** | 85,252 |
| Total Assets | **$234,869** | $229,073 |

*See accompanying notes to financial statements*

Ontario Clean Water Agency 1999

| As at December 31 | *(in thousands of dollars)* 1999 | 1998 |
|---|---|---|
| **Liabilities and Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 18,997 | $ 21,208 |
| Current portion of long-term liabilities (note 9) | 1,000 | 1,000 |
| | 19,997 | 22,208 |
| Long-term liabilities: | | |
| Municipal contributions payable (note 8) | 1,094 | 3,702 |
| Employee benefits (note 9) | 6,683 | 6,037 |
| | 7,777 | 9,739 |
| Equity of Ontario: | | |
| Contributed surplus (note 11) | 106,260 | 106,731 |
| Retained earnings | 100,835 | 90,395 |
| | 207,095 | 197,126 |
| Contingencies (note 12) | | |
| Total Liabilities and Equity | $234,869 | $229,073 |

*See accompanying notes to financial statements*

On behalf of the Board

Director

Director

Ontario Clean Water Agency 1999

## STATEMENT OF INCOME AND RETAINED EARNINGS

| FOR THE YEAR ENDED DECEMBER 31 | *(in thousands of dollars)* | |
|---|---|---|
| | 1999 | 1998 |
| **UTILITY OPERATIONS REVENUES** | | |
| Utility operations | $ 99,745 | $100,660 |
| Fees | 2,432 | 1,940 |
| Total Operating Revenues | 102,177 | 102,600 |
| **OPERATING EXPENSES** | | |
| Salaries and benefits (note 15) | 35,182 | 36,194 |
| Other operating expenses | 62,594 | 62,223 |
| Depreciation and amortization of fixed assets | 1,634 | 1,063 |
| Total Operating Expenses | 99,410 | 99,480 |
| **Net Income – Utility Operations** | 2,767 | 3,120 |
| **FINANCING REVENUES** | | |
| Revenues from investments | 12,641 | 17,368 |
| Interest on facilities under construction | 406 | 621 |
| Total Financing Revenues | 13,047 | 17,989 |
| **FINANCING EXPENSES** | | |
| Interest | 111 | 2,365 |
| Financing administration expenses | 960 | 991 |
| Provision for losses | 500 | 500 |
| Depreciation and amortization of fixed assets | 60 | 60 |
| Total Financing Expenses | 1,631 | 3,916 |
| **Net Income – Financing** | 11,416 | 14,073 |
| **Net Income for the Period before Accrued Employee Benefits and Property Transfer Initiative** | 14,183 | 17,193 |
| **Accrued employee benefits** (note 9) | 2,300 | – |
| **Property Transfer Initiative** (note 13) | 1,443 | 2,016 |
| **Net Income for the Period** | 10,440 | 15,177 |
| **Retained Earnings, Opening Balance** | 90,395 | 75,218 |
| **Retained Earnings, Ending Balance** | $100,835 | $ 90,395 |

*See accompanying notes to financial statements*

Ontario Clean Water Agency 1999

## STATEMENT OF CASH FLOWS

| FOR THE YEAR ENDED DECEMBER 31 *(in thousands of dollars)* | 1999 | 1998 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net Income | **$ 10,440** | $ 15,177 |
| Changes in non-cash working capital balances | | |
| Accounts receivable | **(2,471)** | 2,378 |
| Accounts payable and accrued liabilities | **(2,211)** | (7,570) |
| Ministry of the Environment | **(2,016)** | 218 |
| Provision for restructuring costs | **–** | (453) |
| Depreciation and amortization of fixed assets | **1,694** | 1,123 |
| Net cash flows from operating activities | **5,436** | 10,873 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Net decrease in investments receivable for water and wastewater facilities (note 2) | **11,488** | 107,779 |
| Net decrease in investments receivable for facilities under construction (note 3) | **9,195** | 5,232 |
| Net (decrease) in municipal contributions payable (note 8) | **(2,608)** | (3,276) |
| Increase (decrease) in long-term employee benefits payable (note 9) | **646** | (2,754) |
| Long-term debt repayment | **–** | (56,382) |
| (Increase) decrease in provincial assistance advances receivable (note 5) | **(5,308)** | 1,113 |
| Decrease in top-up loans (note 4) | **66** | 3,659 |
| Changes in contributed surplus (note 11) | **(471)** | (2,250) |
| Net cash flows from financing activities | **13,008** | 53,121 |
| Fixed assets – acquired | **(11,605)** | (2,391) |
| **Increase in Cash** | **6,839** | 61,603 |
| **Cash and Short-Term Investments, Opening Balance** | **124,700** | 63,097 |
| **Cash and Short-Term Investments, Ending Balance** | **$131,539** | $124,700 |

*See accompanying notes to financial statements*

## NOTES TO FINANCIAL STATEMENTS

### GENERAL

The Ontario Clean Water Agency (the "Agency") was established on November 15, 1993, under the authority of The Capital Investment Plan Act (the "Act").

In accordance with the Act, the Agency's objectives include:

- assisting municipalities in providing water and wastewater services on a cost-recovery basis by financing, planning, developing, building and operating such works and services;
- financing, building and operating water and wastewater facilities on behalf of Ontario on a cost-recovery basis; and
- providing these services so as to protect human health and the environment, encourage conservation of water resources and support provincial policies for land use and settlement.

In accordance with the provisions of the Act, the Agency is incorporated under the laws of Ontario. The Agency is exempt from federal and provincial income taxes.

### 1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants. Included below are those accounting policies which are of significance to the Agency.

**(a) Cash and short-term investments**

Short-term investments are stated at the lower of cost or market.

**(b) Fixed assets**

Major capital expenditures with a future useful life beyond the current year are capitalized at cost. Depreciation is provided using the declining balance method with a half-year provision in the year of purchase if the asset is available for use. Fixed assets are being depreciated at rates calculated to amortize the cost of the assets over the estimated lives as follows:

| | |
|---|---|
| Automotive equipment | 4 years |
| Furniture and fixtures | 5 years |
| Computer hardware | 3 years |
| Computer software | 2 years |
| Machinery and equipment | 5 years |
| Electronic operating systems | 10 years |
| Leasehold improvements | 10 years |

**(c) Investments receivable for facilities under construction**

Interest on borrowings and other incremental expenditures relating to facilities are capitalized during the construction period.

**(d) Utility operations**

A portion of the contractual arrangements with clients for the operation of water and wastewater treatment facilities provides for the recovery of all costs incurred in their operations plus a management fee. Revenue is recognized at the time such costs are incurred even though agreements may provide for the collection of a portion of those costs in future years. Accordingly, costs incurred in excess of amounts billed and to be recovered in future years are classified as "Investments receivable in water and wastewater facilities."

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (e) Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.

## 2. INVESTMENTS RECEIVABLE FOR WATER AND WASTEWATER FACILITIES

(a) These investments represent the outstanding principal portion of amounts receivable from clients for capital expenditures undertaken by the Agency on their behalf, and recoverable operating costs, if any, not billed. In addition, it includes capitalized deficits on certain facilities that will be collected from clients during future years. Investments receivable for water and wastewater facilities are recorded at the lesser of both the outstanding principal and other capitalized amounts, and net realizable value.

(b) The investments receivable are supported by agreements which bear interest at rates between 5.07% and 13.69%. Scheduled principal repayments of the investments are as follows:

| *(in thousands of dollars)* | |
|---|---:|
| 2000 | $ 2,194 |
| 2001 | 2,336 |
| 2002 | 2,486 |
| 2003 | 2,647 |
| 2004 | 2,818 |
| Thereafter | 45,985 |
| | 58,466 |
| Less: Current portion | 2,194 |
| | $56,272 |

## 3. INVESTMENTS RECEIVABLE FOR FACILITIES UNDER CONSTRUCTION

(a) "Investments receivable for facilities under construction" represent new water and wastewater facilities or major capital improvements to existing facilities that have been undertaken by the Agency on behalf of its clients. Annually, the net recoverable amount from the customer is transferred to "Investments receivable for water and wastewater facilities." Certain clients pay the entire balance of their amount, accumulated as facilities under construction, within one year.

(b) In the current period, the Agency capitalized interest amounting to $0.4 million (1998 – $0.7 million) to investments receivable for facilities under construction. In addition, provincial assistance amounting to $5.5 million (1998 – $12.3 million) was recorded as a reduction of investments receivable for facilities under construction.

## 4. LOANS RECEIVABLE – TOP-UP LOANS

The Agency made loans to municipalities to finance water and wastewater facilities that have received provincial assistance under the Municipal Assistance Program. The loans were made for terms of up to 20 years at rates set by the Province at the time the loan was granted.

## 5. PROVINCIAL ASSISTANCE ADVANCES

The Agency finances the construction of certain facilities on behalf of municipalities. A portion of the construction costs are eligible for provincial assistance grants provided by the Ministry of the Environment.

## 6. FIXED ASSETS

| *(in thousands of dollars)* | COST | ACCUMULATED DEPRECIATION | NET DECEMBER 31, 1999 | NET DECEMBER 31, 1998 |
|---|---|---|---|---|
| Furniture and fixtures | $ 1,337 | $ (477) | **$ 860** | $ 217 |
| Automotive equipment | 34 | (18) | **16** | – |
| Computer hardware | 3,393 | (2,326) | **1,067** | 907 |
| Computer software | 2,233 | (1,490) | **743** | 721 |
| Leasehold improvements | 3,978 | (301) | **3,677** | 52 |
| Machinery and equipment | 449 | (147) | **302** | 197 |
| Electronic operating systems | 6,770 | (390) | **6,380** | 1,040 |
| | $18,194 | $(5,149) | **$13,045** | $3,134 |

## 7. LEASE COMMITMENTS

Annual lease payments under operating leases for rental of office equipment, premises and vehicles in aggregate are as follows:

| *(in thousands of dollars)* | |
|---|---|
| 2000 | $1,034 |
| 2001 | 1,048 |
| 2002 | 975 |
| 2003 | 802 |
| 2004 | 716 |
| Thereafter | 2,660 |
| | $7,235 |

## 8. MUNICIPAL CONTRIBUTIONS PAYABLE

| *(in thousands of dollars)* | DECEMBER 31, 1999 | DECEMBER 31, 1998 |
|---|---|---|
| Municipal contributions held for future repairs | **$2,408** | $3,049 |
| Municipal operating expense (repayment) prepayments | **(1,314)** | 653 |
| | **$1,094** | $3,702 |

At December 31, 1999, the Agency held funds that will be used for future repairs amounting to $2.4 million (1998 – $3.0 million). The $2.4 million is included in cash and short-term investments.

## 9. EMPLOYEE BENEFITS

At inception, the Agency assumed the responsibility to fund the accrued employee benefits related to the employees of the Agency. These costs have been estimated to amount to $7.7 million (1998 – $7.0 million) of which $1.0 million (1998 – $1.0 million) has been classified as a current liability. During 1999 the Agency expensed $2.3 million in order to fully fund the accrued employee benefits.

## 10. PENSION PLAN

The agency provides pension benefits for all its full-time employees through participation in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario. The Agency's contributions related to the pension plans for the period were $1.9 million (1998 – $2.0 million) and are included in salaries and benefits in the Statement of Income and Retained Earnings.

## 11. CONTRIBUTED SURPLUS

The opening contributed surplus was received from the Province of Ontario in the form of the book value of net assets in excess of obligations assumed. Included in the closing balance are the following:

| *(in thousands of dollars)* | December 31, 1999 |
|---|---:|
| Opening balance, January 1 | $106,731 |
| Adjustments to opening balance | (471) |
| | $106,260 |

The adjustment to the opening balance relates to repair and maintenance costs that were agreed to prior to the establishment of the Agency.

## 12. CONTINGENCIES

### *Litigation*

The Agency is a defendant in a number of lawsuits. In most instances, these actions relate to the period prior to the establishment of the Agency on November 15, 1993. The outcome of the lawsuits cannot be determined at this time. Losses, if any, will be accounted for in the period of settlement.

### *The Year 2000 Issue*

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Agency, including those related to customers, suppliers or other third parties, have been fully resolved.

### 13. PROPERTY TRANSFER INITIATIVE

In 1997, the Province passed legislation requiring the transfer of ownership of water and wastewater facilities from the Agency to municipalities. The Property Transfer Initiative captures all real estate conveyance costs associated with the title transfers. To date, $3.9 million has been spent and an additional $1.1 million is expected to be spent and will be recorded in the period of the transfer. The transfers must be completed by the year 2004.

### 14. RELATED PARTY TRANSACTIONS

As a result of the relationship of the Agency with the Province and its classification as a Province of Ontario Schedule IV Agency, the following related party transactions exist and have been disclosed in the notes to the financial statements:

(a) Transactions with the Province of Ontario
(b) Transactions with the Ministry of the Environment

### 15. SALARIES

Provincial legislation requires disclosure of Ontario public sector employees paid an annual salary in excess of $100,000. For OCWA, this disclosure is as follows:

| | | |
|---|---|---|
| Sheila Willis | President and Chief Executive Officer | $130,282 |
| Michael Brady | General Counsel | $118,340 |
| Louise Wickson | Vice President, Finance and Corporate Services | $103,537 |
| Fausto Saponara | Vice President, Business Development | $142,250 |

### 16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short-term maturities of these instruments. Due to prepayment options, the carrying value of the balance of the financial assets and long-term liabilities approximates their fair value.

## Management's Responsibility for Financial Information
## - Ontario Development Corporation

Management and the Board of Directors are responsible for the financial statements presented. The financial statements have been prepared by Management and, where appropriate, include amounts based on Management's best estimates and judgments.

The Board of Directors ensures that Management fulfills its responsibilities for financial information and internal control. The Board of Directors meets periodically to oversee the financial activities of the Corporation and at least annually to review the financial statements and the external auditor's report thereon.

The financial statements have been examined by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with the accounting policies described in the notes to the financial statements. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

Peter Spik
Director of Operations

July 20, 2000

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

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(416) 327-2381 Fax: (416) 327-9862

***Auditor's Report***

To Ontario Development Corporation
and to the Minister of Economic Development and Trade

I have audited the balance sheet of the Ontario Development Corporation as at March 31, 2000 and the statements of operations, investment by the Province of Ontario and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with the accounting policies described in note 2 to the financial statements.

Toronto, Ontario
June 16, 2000

J.R. McCarter, CA
Assistant Provincial Auditor (Acting)

## ONTARIO DEVELOPMENT CORPORATION

### Balance Sheet
### as at March 31, 2000

| | | 2000<br>$ | 1999<br>$ |
|---|---|---|---|
| | | [thousands] | |
| **ASSETS** | | | |
| Loans receivable | [note 3] | 17,657 | 27,592 |
| Equity investments | [note 3] | 3,096 | 4,153 |
| | | 20,753 | 31,745 |
| Cash and short-term deposits | | 18,329 | 47,452 |
| Account receivable - current | | 1,641 | 5,373 |
| Account receivable - long term | | - | 329 |
| Capital assets-industrial parks | [note 5] | 12,308 | 11,545 |
| Total assets | | 53,031 | 96,444 |
| **LIABILITIES** | | | |
| Accounts payable - current | | 1,834 | 2,812 |
| Accounts payable - long term | | 1,434 | 758 |
| Provision for guarantee losses | [note 3] | 3,587 | 6,358 |
| | | 6,855 | 9,928 |
| Guarantees | [note 6] | | |
| **INVESTMENT BY THE PROVINCE OF ONTARIO** | | | |
| Share capital and other net investment | | 46,176 | 86,516 |
| Total liabilities and investment by the Province | | 53,031 | 96,444 |

See accompanying notes to financial statements

On behalf of the Board:

Chair

Director

## ONTARIO DEVELOPMENT CORPORATION

### Statement of Operations
### for the Year ended March 31, 2000

| | | 2000<br>$ | 1999<br>$ |
|---|---|---|---|
| | | [thousands] | |
| **INTEREST & INVESTMENT INCOME** | | | |
| Interest on loans | | 2,292 | 3,845 |
| Gains on equity investments | | 430 | 5,366 |
| Interest on short-term deposits | | 1,031 | 2,326 |
| | | 3,753 | 11,537 |
| **OTHER INCOME** | | | |
| Industrial parks (net) | [note 5] | (310) | 1,114 |
| Gross operating income | | 3,443 | 12,651 |
| **RECOVERY OF CREDIT & INVESTMENT LOSSES** | [note 3 and 4] | 16,315 | 12,497 |
| **ADMINISTRATION** | [note 7] | (5,211) | (7,903) |
| Net operating income | | 14,547 | 17,245 |

See accompanying notes to financial statements

## ONTARIO DEVELOPMENT CORPORATION

### Statement of Investment by the Province of Ontario
### as at March 31, 2000

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| | [thousands] | |
| **Investment by the Province, beginning of year:** | | |
| Share capital | 7,000 | 7,000 |
| Net investment other than share capital | 79,516 | 81,990 |
| | 86,516 | 88,990 |
| **Net investment by (returned to) the Province:** | | |
| Operating income | 14,547 | 17,245 |
| Contribution for administration costs | 4,987 | 6,910 |
| Prior year costs recovered, net of contributions for guarantee and program costs | (3,965) | (4,711) |
| Repayments/proceeds from loans and investments | (6,991) | (21,918) |
| Other repayments | (48,918) | - |
| | (40,340) | (2,474) |
| **Investment by the Province, end of year** | | |
| Share capital | 7,000 | 7,000 |
| Net investment other than share capital | 39,176 | 79,516 |
| Investment by the Province of Ontario | 46,176 | 86,516 |

See accompanying notes to financial statements

## ONTARIO DEVELOPMENT CORPORATION

### Statement of Cash Flows
### for the Year ended March 31, 2000

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| | [thousands] | |
| **LENDING, INVESTING AND FINANCIAL ASSISTANCE ACTIVITIES** | | |
| Loan collections | 18,204 | 25,513 |
| Proceeds from equity and royalty investments | 3,639 | 6,770 |
| Guarantee recoveries net of guarantees honoured | 3,417 | (620) |
| Capital asset additions | (2,876) | (1,695) |
| Proceeds from sale of building | - | 2,401 |
| Cash transferred from non-consolidated subsidiaries | - | 4,828 |
| Net cash inflow from lending, investing and financial assistance activities | 22,384 | 37,197 |
| **FINANCING ACTIVITIES** | | |
| Repayments to the Province | (59,874) | (26,629) |
| Contribution from the Province | 4,420 | 6,910 |
| Net cash outflow from financing activities | (55,454) | (19,719) |
| **OPERATING ACTIVITIES** | | |
| Operating cash flow from industrial parks | 1,983 | 3,509 |
| Interest received on short-term deposits | 1,143 | 2,213 |
| Interest collected from borrowers | 2,292 | 3,845 |
| Administration costs | (5,211) | (7,903) |
| Other | 3,740 | (1,758) |
| Net cash inflow (outflow) from operating activities | 3,947 | (94) |
| Increase (decrease) in cash and short-term deposits | (29,123) | 17,384 |
| Cash and short-term deposits, beginning of year | 47,452 | 30,068 |
| Cash and short-term deposits, end of year | 18,329 | 47,452 |

See accompanying notes to financial statements

## ONTARIO DEVELOPMENT CORPORATION

### Notes to the Financial Statements
### March 31, 2000

## 1. GENERAL

### (a) The Development Corporations

In 1996, the Province decided to terminate the loan, equity investment and guarantee programs of the Development Corporations and to wind down their activities over a period of years. The Development Corporations consisted of Ontario Development Corporation, Northern Ontario Development Corporation, Eastern Ontario Development Corporation and Innovation Ontario Corporation. Their primary objective was to encourage and assist the development and diversification of industry in Ontario by providing financial assistance in the form of loans, guarantees and direct ownership.

The portfolios and responsibilities of the Development Corporations were transferred to Ontario Development Corporation during the year ended March 31, 1999.

Since May 1998, the Ontario Development Corporation has used a private-sector asset manager to fulfil its responsibilities for managing and administering its term-loan portfolios (net book value of $17 million at March 31, 2000) and its commercial guarantee portfolios ($13 million at March 31, 2000).

### (b) Ontario Development Corporation

Ontario Development Corporation was incorporated with share capital under the *Development Corporations Act*. As an Ontario Crown Corporation, the Corporation is exempt from income taxes under the *Canadian Income Tax Act*.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Accounting

As the Corporation is in liquidation, provisions have been made to reduce the carrying value of its assets to their estimated realisable values and to reflect the liabilities at their estimated settlement values. Since the Corporation is a going concern, revenue and expenses are accounted for as incurred.

### (b) Revenue recognition

Interest income is recognised on the accrual basis, except for certain loans that permit the borrower to defer interest payments. For these loans, interest income that accrues during the deferred payment period is recognised at the end of the deferral period.

### (c) Capital assets - industrial parks

Capital assets in the industrial parks are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the assets. The net book value is also the estimated realisable value (see note 5). A depreciation rate of from five percent to twenty percent is used for buildings and improvements and a rate of twenty percent is used for equipment.

## ONTARIO DEVELOPMENT CORPORATION

**Notes to the Financial Statements (Contd.)**
**March 31, 2000**

### 2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

**(d) Activities managed and administered**

The balance sheet reflects loans and investments made by the Corporation and loans administered by the Corporation for ministries and other agencies where the Corporation has signed the loan agreement. The statement of operations reflects administration expenses for all portfolios administered by the Corporation.

All activities managed and administered by the Corporation are summarised in note 8.

**(e) Use of estimates in financial statements**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

### 3. PROVISIONS FOR LOSSES

The amounts recorded on the Balance Sheet for loans receivable and equity investments are net of the following provisions:

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| | [thousands] | |
| Loans receivable | 4,708 | 7,318 |
| Equity investments | 2,064 | 3,811 |
| **Total** | **6,772** | **11,129** |

Provision for guarantee losses is recorded on the Balance Sheet as a liability.

### 4. RECOVERY OF CREDIT AND INVESTMENT LOSSES

Recovery of credit and investment losses for the year ended March 31, 2000 and the year ended March 31, 1999 comprise the following:

| | Loans<br>$ | Investments<br>$ | Venture Guarantees<br>$ | Commercial Guarantees<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| | | | [thousands] | | |
| Recoveries | 6,397 | 972 | 3,842 | 1,303 | 12,514 |
| Decrease in general provision | 2,610 | 1,747 | 879 | 1,892 | 7,128 |
| Less write-downs and costs | (738) | (1,067) | (434) | (1,088) | (3,327) |
| **Net income – 2000** | **8,269** | **1,652** | **4,287** | **2,107** | **16,315** |
| **Net income – 1999** | **8,480** | **990** | **4,449** | **(1,422)** | **12,497** |

## ONTARIO DEVELOPMENT CORPORATION

### Notes to the Financial Statements (Contd.)
### March 31, 2000

### 5. INDUSTRIAL PARKS

The Corporation owns several industrial parks located in the Province of Ontario. The combined results of operations of the parks for the year ended March 31, 2000 and the year ended March 31, 1999 are as follows:

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| | [thousands] | |
| Rental revenue | 5,770 | 6,603 |
| Realty taxes billed to tenants and other income | 2,624 | 1,977 |
| Depreciation | (2,112) | (2,600) |
| Other operating expenses | (6,592) | (4,866) |
| **Net income (loss) *** | **(310)** | **1,114** |

* Net income (loss) includes provisions for severance payments to employees totalling $558, and the comparative figure includes the release of provisions of prior years totalling $660, which were no longer necessary.

The combined capital assets of the parks as at March 31, 2000 and March 31, 1999 are as follows:

| | Cost<br>$ | Accumulated Depreciation<br>$ | 2000 Net<br>$ | 1999 Net<br>$ |
|---|---|---|---|---|
| | | [thousands] | | |
| Land | 349 | - | 349 | 349 |
| Buildings and improvements | 45,042 | 33,100 | 11,942 | 11,150 |
| Equipment | 1,690 | 1,673 | 17 | 46 |
| | **47,081** | **34,773** | **12,308** | **11,545** |

Negotiations are in process to transfer the industrial parks to Management Board Secretariat. Although the timing and financial consideration for this transfer have not yet been determined, it is not expected that the Corporation will incur a gain or loss on the transfer.

Effective April 1, 2000, responsibility for the day-to-day operation of the industrial parks was assumed by the Ontario Realty Corporation, which is using a private-sector property manager.

## ONTARIO DEVELOPMENT CORPORATION

**Notes to the Financial Statements (Contd.)**
**March 31, 2000**

### 6. CONTINGENT LIABILITIES FOR GUARANTEES

The Corporation has guaranteed the repayment of certain loans made by private sector financial institutions to qualifying Ontario businesses. Under the guarantee programs administered for ministries and other agencies of the Province, the funding for guarantees honoured is provided by those ministries and agencies. See also notes 3, 4 and 8.

Contingent liabilities for loan guarantees as at March 31, 2000 and March 31, 1999 are as follows:

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| | [thousands] | |
| Ventures program | 1,457 | 4,746 |
| Commercial guarantees | 13,382 | 22,024 |
| | **14,839** | **26,770** |

### 7. ADMINISTRATION EXPENSES

Administration expenses for the year ended March 31, 2000 and the year ended March 31, 1999 are as follows:

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| | [thousands] | |
| Salaries, benefits and severance costs | 937 | 2,332 |
| Transportation, communication and supplies | 56 | 92 |
| Asset management services [note 1a] | 3,936 | 4,875 |
| Other services | 282 | 604 |
| | **5,211** | **7,903** |

The Corporation provides pension benefits for its employees through participation in the Public Service Pension Fund and The Ontario Public Service Employees' Union Pension Fund. The Corporation's share of contributions to the pension plans for the year ended March 31, 2000 was $109,000 [year ended March 31, 1999 - $154,000] and is included above as benefits.

The Province funds administration expenses paid by the Corporation.

## ONTARIO DEVELOPMENT CORPORATION

**Notes to the Financial Statements (Contd.)**
**March 31, 2000**

### 8. ACTIVITIES MANAGED AND ADMINISTERED BY THE CORPORATION

In addition to managing its own affairs, the Corporation administers loans, debentures, equity investments and grants on behalf of other ministries and agencies of the Province. The activities of the Corporation are summarised in the following schedule.

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| | [thousands] | |
| **Loans and investments as reported on balance sheet:** | | |
| Loans receivable (net of provisions) | 17,657 | 27,592 |
| Equity investments (net of provisions) | 3,096 | 4,153 |
| Industrial Parks | 12,308 | 11,545 |
| | 33,061 | 43,290 |
| **Loans guaranteed** | 14,839 | 26,770 |
| ***Total loans, investments and guarantees of the Corporation*** | 47,900 | 70,060 |
| **Portfolios administered for ministries and other agencies:**<br>(no provisions are recorded by the Corporation) | | |
| Loans receivable where the Corporation has not signed the loan agreement | 55,374 | 78,788 |
| Loans guaranteed | 9,507 | 19,975 |
| Repayable grants/conditional loans | 18,084 | 101,981 |
| ***Total portfolios administered for ministries and other agencies*** | 82,965 | 200,744 |
| ***Total portfolios managed and administered*** | **130,865** | **270,804** |

### 9. COMPARATIVES

The 1999 comparatives have been reclassified to conform to the 2000 financial statement presentation.

### 10. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

## ONTARIO LOTTERY CORPORATION

### OLC Management's Responsibility for Financial Reporting and Internal Control

The Ontario Lottery Corporation's consolidated financial statements are the responsibility of management and have been prepared in accordance with generally accepted accounting principles. The preparation of the consolidated financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current period cannot be finalized with certainty until future periods. The financial information throughout the text of this *Annual Report* is consistent with the information presented in the financial statements.

In meeting its responsibility for the reliability and timelines of financial information, management has developed and maintains comprehensive internal accounting, operating and systems controls. These controls are designed to safeguard the Corporation's assets and maintain accountability for their use, and ensure compliance with regulatory requirements.

An internal audit function independently evaluates the effectiveness of these controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board of Directors. In addition, the Corporation employs external consultants who advise both management and the Board of Directors on the reliability and integrity of the Corporation's gaming and gaming support systems.

The Board of Directors oversees management's responsibilities for financial reporting and internal control through the Audit Committee. This committee reviews with management and the Provincial Auditor the content and format of the Corporation's consolidated financial statements and the adequacy of the Corporation's internal control before recommending approval to the Board of Directors.

The consolidated financial statements have been audited by the Provincial Auditor who was appointed pursuant to the *Ontario Lottery Corporation Act*. The Auditor's Report, which follows, outlines the scope of the Provincial Auditor's examination and opinion.

The Provincial Auditor, the Corporation's internal auditor and the external consultants reviewing our gaming system have full and free access to the Audit Committee to discuss their audits and related findings.

The Board of Directors, based upon the recommendations of the Audit Committee, has reviewed and approved the consolidated financial statements for the fiscal year ended March 31, 2000.

Barbaro

Ron D. Barbaro
Chair and Chief Executive Officer

Tom Dalton, Vice President
Finance and Administration

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

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***Auditor's Report***

To the Board of Directors of the Ontario Lottery Corporation
and to the Chair of Management Board of Cabinet

I have audited the consolidated balance sheet of the Ontario Lottery Corporation as at March 31, 2000 and the consolidated statements of operations, cash flows, changes in due to Province of Ontario and equity in capital assets for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these consolidated financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Toronto, Ontario
May 26, 2000

J.R. McCarter, CA
Assistant Provincial Auditor (Acting)

## ONTARIO LOTTERY CORPORATION

### CONSOLIDATED BALANCE SHEET

As at March 31, 2000
(in thousands of dollars)

| | 2000 | 1999<br>(Note 12) |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 177,622 | $ 111,231 |
| Prize funds on deposit | 14,557 | 46,437 |
| Accounts receivable | 36,132 | 41,193 |
| Prepaid expenses | 24,700 | 13,900 |
| | 253,011 | 212,761 |
| Pre-opening expenditures (Note 2) | 68,911 | 8,074 |
| Deferred development costs | 8,812 | - |
| Loans receivable (Note 3) | 65,447 | 1,763 |
| Capital assets (Note 4) | 335,223 | 73,663 |
| | **$ 731,404** | **$ 296,261** |
| **Liabilities and Provincial Equity** | | |
| Accounts payable and accrued liabilities | $ 126,535 | $ 74,543 |
| Prize funds unclaimed (Note 5) | 14,557 | 46,437 |
| Due to Interprovincial Lottery Corporation | 2,463 | 4,103 |
| Due to Government of Canada | 12,242 | 9,428 |
| Deferred income | 12,262 | 11,772 |
| | 168,059 | 146,283 |
| Provincial equity: | | |
| Due to Province of Ontario | 228,122 | 76,315 |
| Equity in capital assets | 335,223 | 73,663 |
| | 563,345 | 149,978 |
| | **$ 731,404** | **$ 296,261** |

Commitments (Note 6)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Ron D. Barbaro, Chair

Joanne De Laurentiis, Director

## ONTARIO LOTTERY CORPORATION

### CONSOLIDATED STATEMENT OF OPERATIONS

Year ended March 31, 2000
(in thousands of dollars)

| | 2000 | 1999<br>(Note 12) |
|---|---|---|
| **Revenue** | **$ 2,634,209** | **$ 2,189,390** |
| Operating expenses: | | |
| Prizes | 1,090,077 | 1,070,905 |
| Commissions | 249,855 | 161,928 |
| Payroll | 92,408 | 38,286 |
| Marketing | 39,073 | 31,523 |
| Ticket printing and terminal operation | 47,452 | 46,668 |
| Amortization of pre-opening expenditures | 9,555 | 347 |
| Amortization of capital assets | 41,844 | 22,210 |
| Other | 25,269 | - |
| Facilities | 13,002 | 7,058 |
| Administration | 32,244 | 30,770 |
| | **1,640,779** | **1,409,695** |
| **Income before the undernoted:** | **993,430** | **779,695** |
| Payments to charitable organizations (Note 9) | 12,293 | 14,639 |
| Payments to Government of Canada (Note 10) | 45,914 | 38,949 |
| | **58,207** | **53,588** |
| **Revenue less expenses** | **935,223** | **726,107** |
| Interest income | 12,244 | 4,945 |
| **Net income before the undernoted:** | **947,467** | **731,052** |
| Unusual item (Note 11) | - | (51,193) |
| **Net income** | **$ 947,467** | **$ 679,859** |

Segmented information (Note 7)

See accompanying notes to consolidated financial statements.

## ONTARIO LOTTERY CORPORATION

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Year ended March 31, 2000
(in thousands of dollars)

| | 2000 | 1999 (Note 12) |
|---|---|---|
| **Cash derived from (applied to):** | | |
| **Operations:** | | |
| Net income | $ 947,467 | $ 679,859 |
| Amortization, which does not involve cash | 51,399 | 22,557 |
| Change in non-cash operating working capital | 47,917 | (8,364) |
| | 1,046,783 | 694,052 |
| **Financing and investing:** | | |
| Pre-opening expenditures | (70,392) | (8,421) |
| Deferred development costs | (8,812) | - |
| Loans receivable | (63,684) | (1,763) |
| Capital expenditures | (303,404) | (46,424) |
| | (446,292) | (56,608) |
| **Other:** | | |
| Payments to Province of Ontario | (521,000) | (534,495) |
| Retroactive change in revenue recognition method for Instant Games (Note 12) | (13,100) | 2,000 |
| Change in prize funds on deposit due to change in revenue recognition (Note 12) | - | 2,700 |
| | (534,100) | (529,795) |
| Increase in cash and cash equivalents | 66,391 | 107,649 |
| Cash and cash equivalents, beginning of year | 111,231 | 3,582 |
| **Cash and cash equivalents, end of year** | **$ 177,622** | **$ 111,231** |

See accompanying notes to consolidated financial statements.

## ONTARIO LOTTERY CORPORATION

### CONSOLIDATED STATEMENT OF CHANGES IN DUE TO PROVINCE OF ONTARIO

Year ended March 31, 2000
(in thousands of dollars)

| | 2000 | 1999<br>(Note 12) |
|---|---|---|
| Net income | $ 947,467 | $ 679,859 |
| Add (deduct): | | |
| Amortization of capital assets | 41,844 | 22,210 |
| Capital expenditures | (303,404) | (46,424) |
| | (261,560) | (24,214) |
| Current year amount due | 685,907 | 655,645 |
| Payments to Province of Ontario | (521,000) | (534,495) |
| Amount due less payments | 164,907 | 121,150 |
| Due to (from) Province of Ontario, beginning of year | | |
| As previously reported | 76,315 | (44,835) |
| Retroactive change in revenue recognition method for Instant Games (Note 12) | (13,100) | - |
| As restated | 63,215 | (44,835) |
| **Due to Province of Ontario, end of year** | **$ 228,122** | **$ 76,315** |

See accompanying notes to consolidated financial statements.

### CONSOLIDATED STATEMENT OF EQUITY IN CAPITAL ASSETS

Year ended March 31, 2000
(in thousands of dollars)

| | 2000 | 1999 |
|---|---|---|
| **Balance, beginning of year** | **$ 73,663** | **$ 49,449** |
| Capital expenditures | 303,404 | 46,424 |
| Amortization of capital assets | (41,844) | (22,210) |
| **Balance, end of year** | **$ 335,223** | **$ 73,663** |

See accompanying notes to consolidated financial statements.

# ONTARIO LOTTERY CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended March 31, 2000
(tabular amounts in thousands of dollars)

The Ontario Lottery Corporation was incorporated without share capital on February 6, 1975 pursuant to the Ontario Lottery Corporation Act (OLCA).

Until March 31, 2000 the Corporation was responsible for the conduct and management of lottery games, charity casinos and racetrack slot operations in Ontario.

On December 21, 1999 the Ontario Gaming Corporation Act, 1999 was passed in the legislature with an effective date of April 1, 2000. On that date the Corporation combined operations with the Ontario Casino Corporation. The resultant corporation continues to carry on business as the Ontario Lottery and Gaming Corporation. This corporation continues the management of lottery games, casinos and racetrack slot operations in Ontario.

### 1. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Ontario Lottery Corporation and its 100% owned subsidiary, OLC Services Limited which was incorporated September 4, 1998. OLC Services Limited was established to purchase capital assets which are leased to the parent corporation.

(b) Capital assets:

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 10 to 50 years |
| Furniture and fixtures | 10 years |
| Leasehold improvements | 5 to 10 years |
| Lottery game assets | 3 to 10 years |
| Charity casino and racetrack slot operation gaming assets | 5 years |

Capital assets are amortized when brought into operations.

(c) Revenue recognition:

Revenues for LOTTARIO, ENCORE, PICK-3, DAILY KENO, ONTARIO 49, LOTTO SUPER 7 and LOTTO 6/49 games are deferred on ticket sales and recognized when the draw takes place. For PRO·LINE, OVER/UNDER, POINT SPREAD and SUPERSTAR BINGO games, revenues are recognized when the ticket is sold to the consumer.

Prior to April 1, 1999, revenues for INSTANT games were recognized when the ticket was distributed to the retailer. In 1999 the Corporation implemented an automated distribution system whereby the retailer activates the tickets as available for sale at the retail location. As a result, revenues for INSTANT games are recognized when the ticket is activated for play by the retailer. Tickets issued as a result of the redemption of free ticket prizes are not recorded as revenue.

Gaming revenue from slot and table game operations represents the net win from gaming activities, which is the difference between amounts earned through gaming wagers less any payouts from those wagers.

(d) Pre-opening expenditures:

Certain expenditures, consisting of compensation, consulting and other costs incurred in connection with the development and opening of racetrack slot operations and charity casinos are deferred and amortized over a three year period commencing with site opening.

## ONTARIO LOTTERY CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
Year ended March 31, 2000
(tabular amounts in thousands of dollars)

(e) Deferred development costs

Expenditures, consisting of compensation, consulting and other costs incurred in connection with the development of a management information system are deferred and will be amortized over a five year period.

(f) Foreign currency translation:

Monetary assets and liabilities are translated at the year-end exchange rates. Statement of operations items are translated at the rate of exchange in effect at the transaction date. Transaction gains and losses are included in income in the period in which they arise.

(g) Use of estimates:

In conformity with generally accepted accounting principles, management of the Corporation has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reported period to prepare these financial statements. Actual results could differ from those estimates.

2. **Pre-opening expenditures:**

Pre opening expenditures consist of:

| | | | 2000 | 1999 |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Charity casinos | $ 25,100 | $ 2,491 | $ 22,609 | $ 1,074 |
| Racetrack slot operations | 53,713 | 7,411 | 46,302 | 7,000 |
| | $ 78,813 | $ 9,902 | $ 68,911 | $ 8,074 |

As at March 31, 2000 the Corporation is committed to the establishment of a further eight racetrack slot operations and the completion of two additional charity casinos.

3. **Loans receivable:**

The Corporation has loaned funds to racetracks for the purposes of renovating their buildings to accommodate the Corporation's slot operations. The loans are secured by first mortgages and general security agreements, and generally bear interest at the bank's prime rate, repayable over periods ranging from 1 to 10 years. The amounts will be recovered under an agreed upon formula from withholding of commission which would otherwise be payable to the racetrack.

The Corporation is committed to loan a further $5,367,000 under existing loan facilities.

## ONTARIO LOTTERY CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Year ended March 31, 2000

(tabular amounts in thousands of dollars)

**4. Capital assets:**

In operation:

| | Cost | Accumulated Amortization | 2000<br>Net Book Value | 1999<br>Net Book Value |
|---|---|---|---|---|
| Land | $ 8,421 | $ - | $ 8,421 | $ 260 |
| Buildings | 75,745 | 4,249 | 71,496 | 656 |
| Furniture and fixtures | 15,542 | 8,374 | 7,168 | 3,185 |
| Leasehold improvements | 56,292 | 5,059 | 51,233 | 1,994 |
| Lottery game assets | 164,999 | 144,848 | 20,151 | 30,076 |
| Charity casino and racetrack slot operation gaming assets | 117,652 | 14,240 | 103,412 | 5,609 |
| | 438,651 | 176,770 | 261,881 | 41,780 |

Not in operation:

| | Cost | Accumulated Amortization | 2000<br>Net Book Value | 1999<br>Net Book Value |
|---|---|---|---|---|
| Land | 5,616 | - | 5,616 | 6,802 |
| Buildings | 56,738 | - | 56,738 | 7,031 |
| Furniture and fixtures | 616 | - | 616 | 6 |
| Leasehold improvements | 371 | - | 371 | - |
| Charity casino and racetrack slot operation gaming assets | 10,001 | - | 10,001 | 18,044 |
| | 73,342 | - | 73,342 | 31,883 |
| | $ 511,993 | $ 176,770 | $ 335,223 | $ 73,663 |

**5. Prize funds unclaimed:**

Prize funds unclaimed is represented by:

i) Unclaimed prize funds (net) represents the net prizes anticipated to be claimed in the next year for draws and instant games launched on or after April 1, 1998. This amount includes the gross estimate for prizes outstanding less an estimate for prizes not expected to be claimed by players.

ii) Unclaimed expired prize funds represents expired prize funds for draws and instant games launched prior to March 31, 1998 reserved for redistribution to the players through prizes and bonus draws.

The prize fund unclaimed consists of:

| | 2000 | 1999<br>(Note 12) |
|---|---|---|
| Unclaimed prize funds (net) | $ 14,557 | $ 34,533 |
| Unclaimed expired prize funds | - | 11,904 |
| | $ 14,557 | $ 46,437 |

## ONTARIO LOTTERY CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Year ended March 31, 2000

(tabular amounts in thousands of dollars)

**6. Commitments:**

i) Obligations under operating leases:

The Corporation has entered into several property leases in various locations in Ontario. The future minimum lease payments are approximately as follows:

| | |
|---|---|
| 2001 | $ 3,259 |
| 2002 | 2,866 |
| 2003 | 2,866 |
| 2004 | 2,866 |
| 2005 | 2,866 |
| | 14,723 |
| Thereafter | 16,929 |
| | $ 31,852 |

ii) Suppliers:

The Corporation has computer hardware and maintenance agreements with annual payments for each of the next three years approximately as follows:

| | |
|---|---|
| 2001 | $ 448 |
| 2002 | 452 |
| 2003 | 274 |
| | $ 1,174 |

**7. Segmented information:**

| | | | | 2000 | 1999<br>(Note 12) |
|---|---|---|---|---|---|
| Sector Activity | Lotteries | Charity Casinos | Racetrack Slot Operations | Total | Total |
| **Revenue** | **$ 2,201,413** | **$ 68,001** | **$ 364,795** | **$ 2,634,209** | **$ 2,189,390** |
| Operating expenses: | | | | | |
| Prizes | 1,090,077 | - | - | 1,090,077 | 1,070,905 |
| Commissions | 159,835 | 2,784 | 87,236 | 249,855 | 161,928 |
| Payroll | 36,290 | 22,906 | 33,212 | 92,408 | 38,286 |
| Marketing | 32,974 | 1,043 | 5,056 | 39,073 | 31,523 |
| Ticket printing and terminal operation | 47,452 | - | - | 47,452 | 46,668 |
| Amortization of pre-opening expenditures | - | 2,491 | 7,064 | 9,555 | 347 |
| Amortization of capital assets | 21,969 | 6,682 | 13,193 | 41,844 | 22,210 |
| Other | - | 4,946 | 20,323 | 25,269 | - |
| Facilities | 6,345 | 2,087 | 4,570 | 13,002 | 7,058 |
| Administration | 22,552 | 1,667 | 8,025 | 32,244 | 30,770 |
| | 1,417,494 | 44,606 | 178,679 | 1,640,779 | 1,409,695 |
| **Income before the undernoted:** | **783,919** | **23,395** | **186,116** | **993,430** | **779,695** |
| Payments to charitable organizations | 12,293 | - | - | 12,293 | 14,639 |
| Payments to Government of Canada | 39,702 | 1,027 | 5,185 | 45,914 | 38,949 |
| | 51,995 | 1,027 | 5,185 | 58,207 | 53,588 |
| **Revenue less expenses** | **$ 731,924** | **$ 22,368** | **$ 180,931** | **$ 935,223** | **$ 726,107** |

## ONTARIO LOTTERY CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Year ended March 31, 2000

(tabular amounts in thousands of dollars)

**8. Pension plan:**

The Corporation provides pension benefits for its permanent employees through participation in the Public Service Pension Fund established by the Province of Ontario. The Corporation's share of contributions to the Fund during the year was $8,850,000 (1999 - $2,047,000) and is included in Payroll in the Statement of Operations.

**9. Payments to charitable organizations:**

Payments to charitable organizations are made under an agreement dated November 8, 1996 between the Corporation, the Provincial Bingo Charitable Activities Association and the Registered Gaming Suppliers of Ontario. The agreement stipulates that a distribution of revenue be made to the charitable organizations participating in the SUPERSTAR BINGO game.

**10. Payments to Government of Canada:**

The Corporation made the following payments to the Government of Canada:

| | 2000 | 1999 |
|---|---|---|
| Payments on behalf of the Province of Ontario | $ 20,635 | $ 20,142 |
| Goods and Services Tax | 25,279 | 18,807 |
| | **$ 45,914** | **$ 38,949** |

(a) Payment on behalf of the Province of Ontario:

The provincial lottery corporations make remittances to the Government of Canada under an agreement dated August 1979 between the Provincial Governments and the Government of Canada. The agreement stipulates that the Government of Canada will not participate in the sale of lottery tickets.

(b) Goods and Services Tax:

Goods and Services Tax (GST) payments are made under a specific formula on all expenditures, including retailer commissions and excluding payroll costs, payments to charitable organizations and payments to municipalities. This tax is in lieu of the collection of GST on lottery ticket sales and gaming revenue from the consumer.

In addition, the Corporation also pays GST on its expenditures, excluding payroll costs, retailer commissions and certain capital expenditures, at point of purchase. These payments are not recoverable and are included in the respective accounts.

**11. Unusual item:**

On April 9, 1998, the Province of Ontario assigned the conduct and management of charity casinos and a slot machine program at racetracks to the Corporation. Prior to this, certain operators incurred costs with respect to the establishment of charity casinos in Ontario. The Province of Ontario cancelled the charity casino program on June 26, 1998, and the Corporation undertook to make payment to the selected operators for certain costs. Consequently, the Corporation, on behalf of the Province of Ontario, substantially completed agreements to compensate the operators.

## ONTARIO LOTTERY CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Year ended March 31, 2000
(tabular amounts in thousands of dollars)

### 12. Change in method of revenue recognition for Instant Games:

As explained in Note 1 (c), the Corporation changed its method of recognizing revenues for INSTANT games from when the ticket is distributed to the retailer to when the ticket is activated for play by the retailer. This change in method of recognizing revenue has been applied retroactively. The effect of the change in 2000 was to increase net income by approximately $15,100,000. The 1999 comparative income statement has been retroactively restated to reflect the effect of the decrease in 1999 net income of approximately $2,000,000.

### 13. Comparative amounts:

Certain of the prior year amounts have been restated to conform with the presentation adopted in the current year.

## OCC/OLC Public Sector Salary Disclosure

| Title | Salary | Taxable Benefits |
|---|---|---|
| Ron D. Barbaro<br>Chair and Chief Executive Officer<br>OCC/OLC | $301,319.21 | $6,741.54 |
| Brian Wood<br>Chief Operating Officer<br>OCC/OLC | $181,146.65 | $6,608.19 |
| *Garth Manness<br>President<br>OLC | $172,726.54 | $6,131.40 |
| Earl Dalton<br>V.P. Finance and Administration<br>OLC/OCC | $165,504.17 | $8,573.48 |
| *Joseph St-Amour<br>V.P. Information Systems and Technology<br>OLC | $143,080.78 | $6,129.85 |
| Walter Fioravanti<br>V.P. Human Resources<br>OLC/OCC | $141,068.06 | $9,320.21 |
| *George Sweny<br>V.P. Sales and Business Unit<br>OLC | $135,941.96 | $9,063.34 |
| Paul Micucci<br>V.P. Racetrack Development<br>OLC | $134,246.85 | $3,051.98 |
| David Maddocks<br>Senior Manager, Projects<br>OCC | $122,125.61 | $2,842.84 |
| Ingrid Peters<br>V.P. and General Counsel<br>OCC/OLC | $121,061.63 | $3,369.41 |

| | | |
|---|---|---|
| Antonio Carvalho<br>V.P. Commercial Casinos<br>OCC | $120,418.92 | $ 345.78 |
| *James Read<br>Region Manager, Eastern Ontario<br>OLC | $119,550.26 | $1,562.47 |
| *Murray Mold<br>Team Leader, Off-line Games<br>OLC | $112,664.27 | $ 232.08 |
| Thomas Marinelli<br>Chief Technology Officer<br>OLC | $106,244.59 | $ 280.35 |
| Robert Longman<br>Account Executive<br>OLC | $106,244.59 | $7,310.59 |
| Adriana Tomie<br>Controller, Treasury and Payroll<br>OLC | $106,244.59 | $ 280.35 |
| Kenneth Barnett<br>General Manager<br>OLC | $106,156.45 | $3,594.91 |
| David Myers<br>Director, Sales<br>OLC | $105,800.88 | $2,154.90 |
| John Wisternoff<br>Team Leader, On-line Games<br>OLC | $104,312.85 | $ 259.74 |
| Lisa Bell-Murray<br>Controller, Accounting, Reporting and Analysis<br>OLC | $103,845.03 | $ 242.64 |
| Nola Kassam<br>Relationship Manager, Information Technology<br>OLC | $102,946.52 | $ 262.90 |

**These individuals are no longer with the OLC.*

# Ontario Northland Transportation Commission

## Management's Responsibility

The Ontario Northland Transportation Commission's management is responsible for the integrity and fair presentation of the consolidated financial statements and other information included in the annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements necessarily involves the use of management's judgment and best estimates, particularly when transactions affecting the current accounting period cannot be determined with certainty until future periods. All financial information in the annual report is consistent with the consolidated financial statements.

The Commission maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable and that company assets and liabilities are adequately accounted for and assets safeguarded.

The consolidated financial statements have been reviewed by the Commission's Audit and Finance Committee and have been approved by its Governing Board of Commissioners. In addition, the consolidated financial statements have been audited by the Ontario Provincial Auditor, whose report follows.

K.J. Wallace
President & CEO

R.S. Hutton
Vice President Corporate Services

North Bay, Ontario
April 7, 2000

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

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(416) 327-2381 Fax: (416) 327-9862

***Auditor's Report***

To the Ontario Northland Transportation Commission
and to the Minister of Northern Development and Mines

I have audited the consolidated balance sheet of the Ontario Northland Transportation Commission as at December 31, 1999 and the consolidated statements of operations and retained earnings, contributed surplus and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Toronto, Ontario
April 7, 2000

J.R. McCarter, CA
Assistant Provincial Auditor (Acting)

## Ontario Northland Transportation Commission
## Consolidated Balance Sheet
(dollars in thousands)

| December 31 | 1999 | (Note 17)<br>1998 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Accounts receivable (Note 15) | $ 22,421 | $ 18,120 |
| Inventory | 9,565 | 11,017 |
| Prepaid expenses | 831 | 526 |
| | 32,817 | 29,663 |
| **Self-Insurance Fund** (Notes 1 and 16)<br>- **Market value $4,333;** (1998 - $4,557) | 4,327 | 4,333 |
| **Long-term receivables** (Note 13) | 2,864 | 2,864 |
| **Investment in Capital Assets** (Schedule 1) (Note 10) | 243,157 | 217,048 |
| **Deferred Pension Charge** (Note 3) | 12,382 | 13,252 |
| | $ 295,547 | $ 267,160 |
| **Liabilities and Province of Ontario Equity** | | |
| **Current Liabilities** | | |
| Bank loans and overdrafts (Note 2) | $ 5,656 | $ 5,574 |
| Accounts payable and accrued liabilities | 18,076 | 13,503 |
| Deferred revenue | 304 | 164 |
| Current portion of long-term debt (Note 4) | 1,707 | 315 |
| | 25,743 | 19,556 |
| **Provision for Self-Insurance** (Notes 1 and 16) | 4,327 | 4,333 |
| **Long-Term Debt** (Note 4) | 68,475 | 48,537 |
| | 98,545 | 72,426 |
| **Contingencies** (Note 9) | | |
| **Subsequent event** (Note 16) | | |
| **Province of Ontario Equity** | | |
| Contributed surplus | 24,288 | 24,000 |
| Retained earnings | 172,714 | 170,734 |
| | 197,002 | 194,734 |
| | $ 295,547 | $ 267,160 |

**Approved on behalf of the Commission:**

R. Grant, Chair

K. J. Wallace, President and CEO

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## Ontario Northland Transportation Commission
## Consolidated Statement of Operations and Retained Earnings

**(dollars in thousands)**

| For the year ended December 31 | 1999 | (Note 17)<br>1998 |
|---|---|---|
| **Operating Revenues** (Schedule 2) | **$ 144,092** | $ 129,499 |
| **Operating Expenses** (Schedule 2) | **130,504** | 118,897 |
| **Operating Income** | **13,588** | 10,602 |
| **Other Expenses** | | |
| Amortization (Schedule 2) | **10,421** | 12,081 |
| Unusual items (Note 7) | **-** | 19,706 |
| Investment and other income | **(10)** | (77) |
| Interest expense (Schedule 2) | **1,569** | 372 |
| Gain on sale of capital assets (Schedule 2) | **(372)** | (1,140) |
| | **11,608** | 30,942 |
| **Net Income (Loss) for the year** | **1,980** | (20,340) |
| **Retained Earnings,** beginning of year as previously stated | **170,734** | 191,512 |
| Prior period adjustment (Note 15) | **-** | (438) |
| **Retained Earnings,** end of year | **$ 172,714** | $ 170,734 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## Ontario Northland Transportation Commission
## Consolidated Statement of Contributed Surplus

(dollars in thousands)

| For the year ended December 31 | 1999 | (Note 17)<br>1998 |
|---|---|---|
| **Balance,** beginning of year | $ 24,000 | $ 24,614 |
| **Add:** Contributions from the Province of Ontario | 1,092 | - |
| **Less:** Amortization | 804 | 614 |
| **Balance,** end of year | $ 24,288 | $ 24,000 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## Ontario Northland Transportation Commission
## Consolidated Statement of Cash Flows
(dollars in thousands)

| For the year ended December 31 | 1999 | (Note 17)<br>1998 |
|---|---|---|
| **Operating Activities** | | |
| Net income (loss) for the year | $ 1,980 | $ (20,340) |
| Items not affecting cash | | |
| - amortization (Schedule 2) | 10,421 | 12,081 |
| - gain on sale of capital assets | (372) | (1,140) |
| - unusual item (Note 7) | - | 19,706 |
| | 12,029 | 10,307 |
| Changes in non-cash working capital balances | | |
| Increase in accounts receivable | (4,301) | (2,522) |
| Decrease (increase) in inventory | 1,452 | (2,162) |
| Increase in prepaid expenses | (305) | (238) |
| Increase in accounts payable and accrued liabilities | 4,573 | 2,172 |
| Increase (decrease) in deferred revenue | 140 | (178) |
| | 13,588 | 7,379 |
| **Investing Activities** | | |
| Investment in capital assets | (37,902) | (21,486) |
| Proceeds from sale of capital assets | 940 | 1,649 |
| Decrease (increase) in other assets | 870 | (5,152) |
| | (36,092) | (24,989) |
| **Financing Activities** | | |
| Reduction of long term debt (Note 4) | (487) | (200) |
| Proceeds from long term debt (Note 4) | 21,817 | 13,845 |
| Contributions from the Province of Ontario | 1,092 | - |
| Bank loans and overdrafts | 82 | 3,965 |
| | 22,504 | 17,610 |
| **Change in cash and cash equivalents during the year** | - | - |
| **Cash and equivalents**, beginning of year | - | - |
| **Cash and equivalents**, end of year | $ - | $ - |
| **Interest paid during the year and included in net income (loss)** | $ 1,569 | $ 362 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## Ontario Northland Transportation Commission
## Consolidated Schedule of Investment in Capital Assets
### Schedule 1

**(dollars in thousands)**

| December 31 | | | 1999 | (Note 17) 1998 |
|---|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | **Net Book Value** | **Net Book Value** |
| **Rail Services** | | | | |
| Roadway | $ 173,380 | $ 64,215 | **$ 109,165** | $ 88,243 |
| Buildings | 35,235 | 10,993 | **24,242** | 25,087 |
| Equipment | 72,981 | 29,530 | **43,451** | 29,899 |
| Under construction | 6,157 | - | **6,157** | 15,292 |
| **Telecommunications** | | | | |
| Equipment | 107,827 | 65,364 | **42,463** | 38,181 |
| Buildings | 3,462 | 1,428 | **2,034** | 2,108 |
| Under construction | 1,926 | - | **1,926** | 4,333 |
| **Marine Services (Owen Sound)** | | | | |
| Vessels | 12,959 | 10,904 | **2,055** | 2,381 |
| Land and buildings | 126 | 47 | **79** | 82 |
| Equipment | 280 | 252 | **28** | 3 |
| **Bus Services** | | | | |
| Coaches | 7,820 | 2,972 | **4,848** | 5,174 |
| Under construction | 164 | - | **164** | 151 |
| **Marine Services (North Bay and Moosonee)** | | | | |
| Vessels | 385 | 263 | **122** | 132 |
| Buildings | 1 | 1 | **-** | - |
| **Development** | | | | |
| Land and buildings | 8,017 | 2,244 | **5,773** | 5,982 |
| Land held for resale | 650 | - | **650** | - |
| | $ 431,370 | $ 188,213 | **$ 243,157** | $ 217,048 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## Ontario Northland Transportation Commission
## Consolidated Schedule of Operating Revenues and Expenses
### Schedule 2
**(dollars in thousands)**

| For the year ended December 31 | 1999 | (Note 17)<br>1998 |
|---|---|---|
| **Rail Services** | | |
| Sales revenue (Note 6) | $ 55,974 | $ 54,277 |
| Government reimbursement (Note 5) | 9,530 | 5,731 |
| Operating revenue | 65,504 | 60,008 |
| Operating expense | 65,042 | 60,576 |
| Operating income (loss) | 462 | (568) |
| Amortization | 5,372 | 6,032 |
| Gain on sale of capital assets | (34) | (218) |
| Interest expense | 1,409 | 323 |
| Net loss from operations | (6,285) | (6,705) |
| **Telecommunications** | | |
| Sales revenue (Note 6) | 58,782 | 50,015 |
| Operating expense | 40,008 | 33,618 |
| Operating income | 18,774 | 16,397 |
| Amortization | 4,131 | 4,376 |
| Loss on sale of capital assets | 2 | 173 |
| Net income from operations | 14,641 | 11,848 |
| **Bus Services** | | |
| Sales revenue | 8,720 | 8,923 |
| Operating expense | 8,046 | 8,429 |
| Operating income | 674 | 494 |
| Amortization | 550 | 555 |
| Gain on sale of capital assets | (146) | - |
| Net income (loss) from operations | 270 | (61) |
| **Marine Services (Owen Sound)** | | |
| Sales revenue | 5,488 | 5,421 |
| Government reimbursement (Note 5) | 890 | 890 |
| Operating revenue | 6,378 | 6,311 |
| Operating expense | 6,091 | 5,725 |
| Operating income | 287 | 586 |
| Amortization | 41 | 378 |
| Net income from operations | 246 | 208 |
| **Marine Services (Pelee Island)** (Note 14) | | |
| Sales revenue | 3,459 | 3,701 |
| Operating expense | 3,159 | 3,401 |
| Net income from operations | 300 | 300 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## Ontario Northland Transportation Commission
## Consolidated Schedule of Operating Revenues and Expenses
## Schedule 2 (continued)
**(dollars in thousands)**

| For the year ended December 31 | 1999 | (Note 17)<br>1998 |
|---|---|---|
| **Marine Services (Moosonee)** | | |
| Sales revenue | 142 | 101 |
| Government reimbursement (Note 5) | 50 | 50 |
| Operating revenue | 192 | 151 |
| Operating expense | 190 | 143 |
| Net income from operations | 2 | 8 |
| **Air Service Contracts** | | |
| Government reimbursement (Notes 5 and 8) | 692 | - |
| Operating expense | 516 | 702 |
| Net income (loss) from operations | 176 | (702) |
| **Rental Properties** | | |
| Sales revenue | 365 | 390 |
| Operating expense | 331 | 215 |
| Operating income | 34 | 175 |
| Amortization | 25 | 203 |
| Gain on sale of capital assets | (194) | (1,095) |
| Net income from operations | 203 | 1,067 |
| **Administration** | | |
| Sales revenue | - | - |
| Operating expense | 7,121 | 6,088 |
| Operating loss | (7,121) | (6,088) |
| Amortization | 302 | 537 |
| Interest expense | 160 | 49 |
| Net loss from operations | (7,583) | (6,674) |
| **Total Operations** | | |
| Sales revenue | 132,930 | 122,828 |
| Government reimbursement (Note 5) | 11,162 | 6,671 |
| Operating revenues | 144,092 | 129,499 |
| Operating expenses | 130,504 | 118,897 |
| Operating income | 13,588 | 10,602 |
| Amortization | 10,421 | 12,081 |
| Interest expense | 1,569 | 372 |
| Gain on sale of capital assets | (372) | (1,140) |
| **Net Income (Loss) from Operations** | $ 1,970 | $ (711) |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

## Ontario Northland Transportation Commission
## Summary of Significant Accounting Policies

December 31, 1999

### Basis of Accounting

These consolidated financial statements are prepared by management in accordance with generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Ontario Northland International Consulting Services Inc, O.N. Tel Inc., Star Transfer Limited, The Owen Sound Transportation Company, Limited, Air-Dale Limited and Nipissing Central Railway Company.

### Revenue Recognition

Transportation revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier. Revenues from other sources are recognized when earned, with the exception of federal government reimbursements. Reimbursements, upon audit verification of yearly losses are recorded on a cash basis. Advance payments made prior to final determination of losses are recorded on an accrual basis. Telecommunications toll revenue adjustments are recognized when measurement is reasonable.

### Inventory

With the exception of used rail, all materials and supplies are valued at average cost. Used rail is shown at unamortized book value determined at the time of retirement.

### Investment in Capital Assets and Amortization

Capital assets are stated at acquisition cost. Amortization is calculated using the straight-line method over the estimated service lives of the assets.

The estimated service lives for principal categories of assets are as follows:

| | |
|---|---|
| Roadway - main line and branches | 20 to 50 years |
| Railway diesel locomotives | 25 years |
| Railway cars | 33 years |
| Marine vessels | 20 to 30 years |
| Buildings | 50 years |
| Telecommunications equipment | 15 years |
| Vehicles | 3 years |
| Computer equipment | 5 years |
| Coaches | 12 years |

## Ontario Northland Transportation Commission
## Summary of Significant Accounting Policies (continued)

December 31, 1999

**Investment in Capital Assets and Amortization (continued)**

The Province of Ontario reimburses the Commission for the cost of certain capital assets purchased for use in operations designated as non-commercial by the Province. The Commission records these assets at their original cost together with an offsetting credit to contributed surplus. Annual amortization on these capital assets is recorded as a reduction of contributed surplus.

**Self-Insurance Fund**

The self-insurance fund assets are stated at acquisition cost.

**Income Taxes**

As an agency of the Province of Ontario, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.

**Accounting Estimates**

Preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

## Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements

December 31, 1999

### 1. Self-Insurance Fund

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annual contributions to the self-insurance fund consist of a $100,000 premium paid by the Commission in addition to investment income earned on fund assets. Fund assets are comprised of investments in federal and provincial government bonds.

Interest rates on the above mentioned bonds vary from 4.25% to 14.25% per annum. Maturity dates on these investments are staggered ranging from August 8, 2000 to October 16, 2006.

### 2. Operating Line of Credit

The Commission has a demand operating line of credit bearing interest at prime less 0.5%. The maximum draws that can be advanced on this operating line are $8,000,000. Included in bank loans and overdrafts at year end are draws on the operating line of $4,200,000 (1998 - $2,000,000).

### 3. Deferred Pension Charge

The Commission is the trustee for its contributory pension plan which covers all permanent staff.

The net cost of pension benefits is actuarially determined on the basis of management's best estimates using the projected benefit method pro-rated over the service lives of the employees. The net cost of pension benefits includes the amortization over the remaining service lives of the plan members of the initial net pension surplus and the 1999 experience gain. Pension plan assets were valued at a market related value based on recognizing the difference between book and market values at each year end over a five year period.

The Commission's share of the net cost (recovery) of pension benefits earned by employees during the year was $3,082,000 (1998 - ($3,097,000)). In 1999 the Commission funded the amount of $2,212,000 (1998 - $2,123,000). The accumulated excess of the funded amount over the net cost of benefits earned is recorded as a deferred pension charge on the balance sheet.

The actuarial valuation prepared for accounting purposes as at December 31, 1999 disclosed market related value of plan assets of $407,665,000 (1998 - $378,778,000) and present value of accrued pension benefits of $347,136,000 (1998 - $304,745,000). This valuation assumed an expected rate of return on plan assets of 5.75% (1998 - 6.5%) and projected pay increases of 4% (1998 - 4.5%).

## Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements

December 31, 1999

### 4. Long-Term Debt

Long-term debt is comprised of the following:

| | 1999 | 1998 |
|---|---|---|
| Loan from Province of Ontario, non-interest bearing with no specific terms of repayment. | **$ 35,208,000** | $ 35,208,000 |
| Loan from Ontario Financing Authority, bearing interest at 5.64% per annum, blended monthly payments of $43,000 for 10 years beginning May 1, 1998. | **3,430,000** | 3,744,000 |
| Loan from Ontario Financing Authority, bearing interest at 5.6% per annum, blended monthly payments of $156,000 for 15 years beginning January 1, 2000. | **19,014,000** | (a)9,900,000 |
| Loan from Ontario Financing Authority, bearing interest at 6.37% per annum, blended monthly payments of $109,000 for 15 years beginning September 1, 1999. | **12,530,000** | - |
| | **70,182,000** | 48,852,000 |
| **Less** current portion | **1,707,000** | 315,000 |
| | **$ 68,475,000** | $ 48,537,000 |

**(a)** The total approved amount of this loan is $19,014,000 under the terms mentioned above. Construction advances of $5,300,000 and $4,600,000 were made on December 15, 1998 and December 31, 1998, respectively. Interest at a rate of 5.05% on the $5,300,000 advance and 5.15% on the $4,600,000 advance was due and payable prior to commencement of payments on the $19,014,000 loan. Further advances were made during construction up to the total amount of the loan. Interest charged on these further construction advances ranged from 4.93% to 5.52%.

Payments required in the next five years are as follows:

| | |
|---|---|
| 2000 | $ 1,707,000 |
| 2001 | 1,809,000 |
| 2002 | 1,916,000 |
| 2003 | 2,030,000 |
| 2004 | 2,150,000 |

## Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements

December 31, 1999

5. **Government Reimbursement**

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines, certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry entered into a fixed price contract which defined the amount of compensation which the Province of Ontario provided for the year 1999. In 1999 the provincial government provided one time compensation to offset losses on the passenger train service and on the provision of air services to communities affected by the closure of the Air Services division (norOntair). In 1999 these payments which are included below amounted to $3,800,000 (1998 - $Nil) and $692,000 (1998 - $Nil) respectively.

A portion of the operating loss of the weekday passenger train service between North Bay and Toronto is reimbursed by the National Transportation Agency of Canada under Section 270 of the Railway Act. The federal government revoked the Railway Act during 1996 and replaced it with the Canada Transportation Act. Negotiations between the Commission and Transport Canada concluded in 1996. The amount of annual reimbursement has been fixed at $2,500,000 for a five year period expiring in 2001.

Details of Government Reimbursement are as follows:

| | 1999 | 1998 |
|---|---|---|
| From Province of Ontario: | | |
| Rail - Passenger Service and Moosonee Branch | $ **7,030,000** | $ 3,231,000 |
| Air Service Contracts | **692,000** | - |
| Marine Services (Moosonee) | **50,000** | 50,000 |
| Marine Services (Owen Sound) | **890,000** | 890,000 |
| | **8,662,000** | 4,171,000 |
| From Transport Canada: | | |
| Current year's operations | **2,500,000** | 2,500,000 |
| | **$ 11,162,000** | 6,671,000 |

## Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements

December 31, 1999

### 6. Commission Revenues

The Commission's Telecommunications Division has a traffic agreement with Bell Canada that covers all long distance services that either originate within and terminate outside or originate outside and terminate within the Commission's service area. Bell Canada gave notice that they wished to terminate this agreement in 1997. The CRTC determined that the existing agreement be made interim effective January 1, 1998 until a new agreement could be established between both parties. In 1998, Bell Canada filed an application with the CRTC requesting termination of the current agreement with future revenue settlements to be made on the basis of Carrier Access Tariffs. To date no decision has been rendered by the CRTC and pending final negotiation of a new agreement, the terms and conditions of the old agreement are being continued on a monthly basis.

During 1999, the Rail Services Division derived 49% (1998 – 50%) of it's revenue from three major customers during the same fiscal period.

### 7. Unusual Items

| | 1999 | 1998 |
|---|---|---|
| Write-down of ferry vessel Nindawayma | $ - | $ 3,311,000 |
| Write-down of deferred land development costs | - | 1,300,000 |
| Write-down of railway passenger rolling stock | - | 15,095,000 |
| | $ - | $ 19,706,000 |

Steps taken to dispose of the ferry vessel Nindawayma in 1996 continued into 1999. In 1998 it had become apparent that the net realizable value of this asset has fallen below carrying value. Accordingly in 1998, the remaining residual net book value of the asset has been written off.

The process of selling land held by the Commission in Timmins, Ontario began in 1998. It had become evident that the net realizable value of development costs associated with the land had fallen below its carrying value. The development costs were accordingly written down by $1,300,000.

In connection with the transfer of responsibility for reimbursement of the operating loss of the passenger train service between North Bay and Toronto from the National Transportation Agency to Transport Canada, the carrying value of the passenger rolling stock (converted unilevel commuter cars) was examined. Management has determined that the net realizable value of these assets has fallen below their carrying value and accordingly, they have been written down. In determining the amount of the writedown, management considered both an independent valuation of these cars conducted during 1998 as well as negative cash flows produced by the passenger train service. (see Note 9).

## Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements

December 31, 1999

### 8. Air Service Contracts

The Commission contracted for the provision of alternate transportation for some communities affected by the closure of the Air Services division (norOntair) until other arrangements could be made. This contractual arrangement extended into the second quarter of 1997. Upon completion of this contract, the Commission began the provision of funds directly to some of the affected communities in order that they may arrange alternate modes of transport. These payments may be found in Schedule 2 under the caption Air Service Contracts, and the payments which originally were expected to end in 1999 will now continue into 2000.

### 9. Contingencies

Various statements of claim have been issued against the Commission claiming damages. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims would be unfounded or covered by insurance after application of a $2,000,000 deductible. Should any loss result, it would be charged to operations when the amount is ascertained.

A claim for $3,000,000 had been submitted in 1998 to the National Transportation Agency for partial reimbursement of the write-down of railway passenger rolling stock. The likelihood of the success of the claim remains not determinable at this time and as a result is not reflected in these financial statements.

During 1999 the Commission's telecommunications division (O.N. Tel Inc.) was assessed, by the Ontario Ministry of Finance, $1,547,000 for Gross Receipts Taxes related to the years 1997 and 1998. The Commission is of the opinion that the Gross Receipts Taxes paid for the periods in question are correct and has not paid the assessment. The Commission intends to vigorously contest the assessment. The likelihood of success contesting the assessment is not determinable at this time and as a result the assessment is not reflected in these financial statements. Should the Commission be unsuccessful contesting the assessment it will be reflected, along with any interest and penalties, in the period of resolution.

### 10. Government Assistance

Under an agreement dated February 24, 1992 the Commission became eligible to receive $4,250,000 in loan proceeds from the Northern Ontario Heritage Fund Corporation (the Heritage Fund), to assist with the purchases of certain specified capital assets. In accordance with the terms of the agreement the Commission must lease the assets to Algoma Central Railway for a nominal fee of $1 per year. The loan is non-interest bearing and may be repaid at a mutually agreed date between the Commission and the Heritage Fund by conveyance of the title of the assets to the Heritage Fund. As at December 31, 1999 a total of $4,179,000 (1998 - $4,179,000) has been received and has been recorded as a reduction of the cost of the capital assets.

## Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements

December 31, 1999

### 11. Financial Instruments

The Commission's financial instruments consist of cash and term investments of the self insurance fund, accounts receivable, bank loans and overdrafts, accounts payable and long-term debt. Unless otherwise noted, it is management's opinion that the Commission is not exposed to significant interest, currency or credit risks arising from these financial instruments.

The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

A portion of the Commission's accounts payable will be settled in US dollars within two months of the end of the fiscal year.

### 12. Related Party Transactions

During the year, the Commission charged the ONTC Contributory Pension Fund $308,000 (1998 - $185,000) for financial and administrative support.

During 1999, the Rail Services division (of the Commission) charged the Telecommunications division (of the Commission) $985,000 (1998 - $985,000) for the use right-of-way over Rail Services land. This amount is disclosed as revenue to the Rail Services division and an expense to the Telecommunications division. Management believes that this transaction was consummated on terms no more or less favourable than those that could have been obtained from other third parties.

### 13. Long-Term Receivables

| | **1999** | 1998 |
|---|---|---|
| Long-term receivables - Amounts recoverable from parties as the result of operational events which will be resolved beyond the next fiscal period. | **$ 2,864,000** | $ 2,864,000 |

## Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements

December 31, 1999

### 14. Marine Services Revenue - Pelee Island

The contract for the provision of marine services to Pelee Island was subject to renewal March 31, 2000. A contract extension to March 31, 2001 is currently being negotiated.

### 15. Restatement

In 1997 the Commission recognized $821,000 in federal reimbursement for losses incurred on the passenger train service between North Bay and Toronto. The reimbursement was for the final 18 months of operations leading up to the revocation of the Railway Act in 1996. During 1999 it was determined that the amount was overstated by $438,000. This error has been accounted for retroactively with restatement of the financial results for 1997 and 1998. The following table summarizes the adjustments recorded by the Commission:

| | 1998 | 1997 |
|---|---|---|
| Revenue | $ - | $ (438,000) |
| Net loss | - | 438,000 |
| Accounts receivable | (438,000) | (438,000) |
| Retained earnings | (438,000) | (438,000) |

### 16. Subsequent Event

On March 14, 2000 one of the Commission's freight trains derailed. The train carried, in addition to other commodities, sulphuric acid and derailed in a remote area of northeastern Ontario. While not determinable at the time of financial statement preparation, damages related to the derailment are expected to be significant. To the extent possible, cargo and rolling stock damage claims will be covered by the self-insurance fund. Environmental damage claims are insured up to $100,000,000 with a $2,000,000 policy deductible which would be charged to operations. Other costs not covered by insurance will be reflected in the year that amounts are determined.

### 17 Comparative Figures / Statement of Cash Flows

Prior year's figures have been reclassified where necessary to conform to the current year's presentation. The Commission has adopted the recommendations of the Canadian Institute of Chartered Accountants with respect to the statement of cash flows.

## Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements

December 31, 1999

18. **Uncertainty due to the Year 2000 Issue**

The year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the Commission, including those related to customers, suppliers, or other third parties, have been fully resolved.

## Ontario Northland Transportation Commission
## Statement of Employees Paid in Excess of $100,000

December 31, 1999

| Name | Position | Salary | Taxable Benefits |
|---|---|---|---|
| K J Wallace | President and C.E.O. | $ 143,172 | $ 9,262 |
| R S Hutton | Vice President Corporate Services | 124,886 | 1,123 |
| S G Carmichael | Vice President Transportation Services | 119,420 | 1,121 |
| J L Thib | Chief Transportation Officer | 105,919 | 860 |

Prepared under the Public Sector Salary Disclosure Act, 1996

# Ontario Power Generation Inc.:

## Management's Responsibility for Financial Reporting

The accompanying financial statements of Ontario Power Generation Inc. are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada. Ontario Power Generation Inc. chooses accounting principles appropriate to the circumstances. The significant accounting policies followed by Ontario Power Generation Inc. are described in the summary of significant accounting policies contained in Note 3 to the consolidated financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The consolidated financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to March 21, 2000.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safeguarded and that reliable financial information was available on a timely basis. The system included formal policies and procedures and an organizational structure that provided for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluated the effectiveness of these internal controls on an ongoing basis and reported its findings to management and the Audit Committee of the Ontario Power Generation Inc. Board of Directors.

The consolidated financial statements have been examined by Ernst & Young LLP, independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with accounting principles generally accepted in Canada. The Auditors' Report outlines the scope of their examination and their opinion.

For the year ended December 31, 1999, the Ontario Power Generation Inc. Board of Directors, through the Audit Committee, was responsible for ensuring that management fulfilled its responsibilities for financial reporting and internal controls. The Audit Committee met periodically with management, the internal auditors and the external auditors to satisfy itself that each group had properly discharged its respective responsibility, and to review the financial statements before recommending approval by the Board of Directors. The external auditors had direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of Ontario Power Generation Inc.'s financial reporting and the effectiveness of the system of internal controls.

March 21, 2000

Ron Osborne

RONALD W. OSBORNE
*President and*
*Chief Executive Officer*

Original signed by Wayne Bingham

WAYNE M. BINGHAM
*Executive Vice President and*
*Chief Financial Officer*

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## Auditors' Report

To the Shareholder of Ontario Power Generation Inc.:

We have audited the consolidated balance sheet of Ontario Power Generation Inc. (the "Corporation") as at December 31, 1999, the consolidated statements of income (loss), retained earnings (deficit of assets over liabilities) and cash flows of the Corporation for the nine months ended December 31, 1999, the consolidated balance sheet of the electricity generating business of Ontario Hydro (the "Acquired Business") as at December 31, 1998 and the consolidated statements of income (loss), retained earnings (deficit of assets over liabilities) and cash flows of the Acquired Business for the three months ended March 31, 1999 and the year ended December 31, 1998. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at December 31, 1999, the consolidated financial position of the Acquired Business as at December 31, 1998, the consolidated results of the operations and cash flows of the Corporation for the nine months ended December 31, 1999 and the consolidated results of operations and cash flows of the Acquired Business for the three months ended March 31, 1999 and the year ended December 31, 1998 in accordance with accounting principles generally accepted in Canada.

Original signed by Ernst & Young LLP

CHARTERED ACCOUNTANTS
*Toronto, Canada*
*March 21, 2000*

## Consolidated Statements of Income (loss)

| *(millions of dollars except earnings per share)* | APRIL 1 TO DECEMBER 31 1999 | ACQUIRED BUSINESS (Notes 1 and 3)<br>JANUARY 1 TO MARCH 31 1999 | ACQUIRED BUSINESS (Notes 1 and 3)<br>YEAR ENDED DECEMBER 31 1998 |
|---|---|---|---|
| **Revenues** | 4,339 | 1,784 | 6,592 |
| **Operating expenses** | | | |
| Operation, maintenance and administration | 1,791 | 558 | 2,241 |
| Fuel | 816 | 335 | 1,148 |
| Power purchased | 153 | 45 | 175 |
| Depreciation and amortization *(notes 6 and 7)* | 573 | 385 | 1,441 |
| Property and capital taxes | 256 | – | – |
| | 3,589 | 1,323 | 5,005 |
| **Operating income** | 750 | 461 | 1,587 |
| **Interest expense** | 135 | 560 | 2,301 |
| **Income from deferred pension asset** | – | – | (655) |
| **Income (loss) before income taxes** | 615 | (99) | (59) |
| **Income taxes** *(note 4)* | 289 | – | – |
| **Net income (loss)** | 326 | (99) | (59) |
| **Earnings per common share** | 1.27 | | |
| **Common shares outstanding** *(millions)* | 256.3 | | |

*See accompanying notes to financial statements*

## Consolidated Statements of Retained Earnings (deficit of assets over liabilities)

| *(millions of dollars)* | APRIL 1 TO DECEMBER 31 1999 | ACQUIRED BUSINESS (Notes 1 and 3)<br>JANUARY 1 TO MARCH 31 1999 | ACQUIRED BUSINESS (Notes 1 and 3)<br>YEAR ENDED DECEMBER 31 1998 |
|---|---|---|---|
| **Retained earnings (deficit of assets over liabilities), beginning of period** *(note 1)* | – | (442) | (39) |
| **Net income (loss)** | 326 | (99) | (59) |
| **Change in accounting for post employment benefits** | – | – | (344) |
| **Dividends** | (35) | – | – |
| **Retained earnings (deficit of assets over liabilities), end of period** | 291 | (541) | (442) |

*See accompanying notes to financial statements*

## Consolidated Balance Sheets

| *(millions of dollars)* | DECEMBER 31 1999 | ACQUIRED BUSINESS (Notes 1 and 3)<br>DECEMBER 31 1998 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents *(note 5)* | 243 | 123 |
| Accounts receivable | 907 | 638 |
| Income taxes recoverable *(note 4)* | 23 | – |
| Fuel | 424 | 455 |
| Materials and supplies | 201 | 295 |
| | 1,798 | 1,511 |
| **Fixed assets** *(note 6)* | | |
| Property, plant and equipment | 13,285 | 39,016 |
| Less: accumulated depreciation | 303 | 12,166 |
| | 12,982 | 26,850 |
| **Other assets** | | |
| Deferred pension asset *(note 16)* | 516 | 723 |
| Nuclear waste management and asset removal fund *(note 7)* | 367 | – |
| Long term accounts receivable and other assets | 27 | 62 |
| Deferred debt costs | – | 978 |
| | 910 | 1,763 |
| | 15,610 | 30,124 |

*See accompanying notes to financial statements*

## Consolidated Balance Sheets

| (millions of dollars) | DECEMBER 31 1999 | ACQUIRED BUSINESS (Notes 1 and 3)<br>DECEMBER 31 1998 |
|---|---|---|
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued charges | 1,086 | 936 |
| Accrued interest | 59 | 540 |
| Long term debt due within one year *(note 8)* | 4 | 1,940 |
| Short term notes payable | – | 2,231 |
| | 1,149 | 5,647 |
| Long term debt *(note 8)* | 3,422 | 20,311 |
| Other liabilities | | |
| Nuclear waste management and asset removal *(note 7)* | 4,235 | 3,201 |
| Other post employment benefits *(note 16)* | 959 | 1,037 |
| Long term accounts payable and accrued charges | 245 | 370 |
| Deferred income taxes payable *(note 4)* | 75 | – |
| Other | 108 | – |
| | 5,622 | 4,608 |
| Shareholder's equity *(Deficiency)* | | |
| Common shares *(note 18)* | 5,126 | – |
| Retained earnings (deficit of assets over liabilities) | 291 | (442) |
| | 5,417 | (442) |
| | 15,610 | 30,124 |

Contingencies and Commitments *(notes 7 and 15)*

*See accompanying notes to financial statements*

On behalf of the Board of Directors,
March 21, 2000:

W. A. FARLINGER
*Chairman*
*Toronto, Canada*

RONALD W. OSBORNE
*President and Chief Executive Officer*
*Toronto, Canada*

## Consolidated Statements of Cash Flows

| (millions of dollars) | APRIL 1 TO DECEMBER 31 1999 | ACQUIRED BUSINESS (Notes 1 and 3)<br>JANUARY 1 TO MARCH 31 1999 | ACQUIRED BUSINESS (Notes 1 and 3)<br>YEAR ENDED DECEMBER 31 1998 |
|---|---|---|---|
| **Operating activities** | | | |
| Net income (loss) | 326 | (99) | (59) |
| Adjust for non-cash items: | | | |
| Depreciation and amortization | 573 | 385 | 1,441 |
| Deferred pension asset | 39 | 5 | (655) |
| Deferred income taxes | 75 | – | – |
| Amortization of foreign exchange gains | – | 20 | 90 |
| Other | (7) | (24) | 12 |
| | 1,006 | 287 | 829 |
| Nuclear waste management and asset removal | (361) | 23 | 52 |
| Non-cash working capital changes *(note 13)* | (96) | 188 | 134 |
| Cash flow from operating activities | 549 | 498 | 1,015 |
| **Investing activities** | | | |
| Additions to fixed assets | (450) | (38) | (486) |
| Other assets | – | 3 | (60) |
| Proceeds from sale of fixed assets | 33 | – | 7 |
| | (417) | (35) | (539) |
| Cash flow before financing activities | 132 | 463 | 476 |
| **Financing activities** | | | |
| Cash from acquired business *(note 1)* | 146 | – | – |
| Dividends | (35) | – | – |
| Net other financing activities | – | (440) | (316) |
| | 111 | (440) | (316) |
| Increase in cash and cash equivalents during period | 243 | 23 | 160 |
| Cash and cash equivalents, beginning of period *(note 1)* | – | 123 | (37) |
| Cash and cash equivalents, end of period | 243 | 146 | 123 |

*See accompanying notes to financial statements*

## Notes to the Consolidated Financial Statements

### 1. Incorporation, Acquisition of Business and Commencement of Operations

Ontario Power Generation Inc. (the "Corporation") was incorporated on December 1, 1998 pursuant to the *Business Corporations Act* (Ontario). As part of the reorganization of Ontario Hydro, under the *Electricity Act, 1998* and the related restructuring of the electricity industry in Ontario, the Corporation and its subsidiaries purchased and assumed certain assets, liabilities, employees, rights and obligations of the electricity generation business of Ontario Hydro (the "Acquired Business") on April 1, 1999 and commenced operations on that date.

In connection with the reorganization of Ontario Hydro, four other successor entities were created in addition to Ontario Power Generation Inc. Ontario Hydro Services Company Inc. and its subsidiaries ("OHSC") is the successor company to Ontario Hydro's electricity transmission, distribution and energy services businesses. Other successor corporations to Ontario Hydro include the Independent Electricity Market Operator ("IMO"), which is responsible for directing the operations and reviewing the reliability of the Ontario electricity market, and the Electrical Safety Authority ("ESA"), which has the responsibility for electrical equipment and wiring installation inspection functions. Ontario Hydro has continued as Ontario Electricity Financial Corporation ("OEFC"), responsible for managing and retiring Ontario Hydro's outstanding debt and other obligations.

In consideration of the transfer of assets, liabilities, officers, employees, rights and obligations of the electricity generation business of Ontario Hydro, the Corporation issued to OEFC notes payable in the aggregate principal amount of $8,526 million, including a note in the principal amount of $5,126 million (the "Equity Note") and assumed a capital lease obligation of Ontario Hydro in the amount of $30 million on April 1, 1999. The Province has assumed all of the Corporation's obligations under the Equity Note and OEFC has released the Corporation from its obligations thereunder and in connection therewith the Corporation issued to the Province 256,300,000 common shares as fully paid and non-assessable shares. OEFC has agreed that without the consent of the Corporation, it will not sell its $3,400 million of notes of the Corporation. The Corporation's long term debt on April 1, 1999 was $3,430 million.

The Corporation has recorded the purchase of the Acquired Business at its fair value as of April 1, 1999 as follows:

| *(millions of dollars)* | FAIR VALUE AS AT APRIL 1, 1999 |
|---|---|
| Assets | |
| Current assets | 1,465 |
| Fixed assets | 12,872 |
| Other assets | 598 |
| | 14,935 |
| Liabilities | |
| Current liabilities | 1,073 |
| Liabilities and capital leases | 5,336 |
| | 6,409 |
| Net assets acquired | 8,526 |

The purchase price of $8,526 million was determined based on the present value of estimated future operating results and cash flows of the Acquired Business in a deregulated market. The purchase of the Acquired Business from the related party, OEFC, was recorded at the exchange amount of $8,526 million in view of the substantive change in ownership interests arising from the transaction. The aggregate value of the net assets acquired was allocated to assets and liabilities based on their estimated fair values.

As part of the transfer agreement, the Province agreed to a transition period over which the final adjustments to the purchase price would be settled. The Corporation is in the process of finalizing this adjustment.

The financial position, results of operations and cash flows presented in these financial statements as at dates and for periods prior to April 1, 1999 represent all assets, liabilities, rights and obligations of Ontario Hydro pertaining to the Acquired Business now conducted by the Corporation. These financial statements have been prepared through specific identification of assets, liabilities (other than debt), revenues and expenses relating to such businesses, and through an allocation of certain common financial statement accounts and items of Ontario Hydro. In particular, a portion of Ontario Hydro's revenues and debt, and corresponding portion of related interest and other financial expenses, have been allocated to the Acquired Business. As explained in note 17, the financial position and operating results of the Corporation differ significantly from those of the Acquired Business prior to April 1, 1999 because of changes in the regulatory environment, financing and other factors.

### 2. Restructuring of the Ontario Electricity Industry

The restructuring of Ontario's electricity industry is being accomplished in two stages. The first stage, called the Transition Period, began on April 1, 1999 with the reorganization of Ontario Hydro and will end with the opening of access to the electricity transmission and distribution systems in Ontario. The second stage, Open Access, is expected to begin November 2000. With Open Access, customers will have the right to choose their electricity supplier. The transmission and distribution system in Ontario will be open to all users in a competitive marketplace.

Following the reorganization of Ontario Hydro, an amount of debt remained that the successor entities were not expected to service as commercial entities in a competitive market. This debt, referred to as stranded debt, is the liability of OEFC. The Corporation has no obligation relating to, does not guarantee, and is not otherwise responsible for any of this stranded debt. The Province has stated that it intends to dedicate certain of its revenue streams from the restructured electricity industry (e.g. payments in lieu of taxes made by the Corporation, OHSC and local distribution utilities) to service stranded debt. The Province anticipates that these dedicated revenue streams will service the majority of the stranded debt with the balance likely serviced through a competition transition charge to be reflected in customers' electricity bills.

The Province has adopted a framework for market power mitigation designed to address issues regarding the Corporation's market position in Ontario. Under this framework, the Corporation must reduce its control over specified sources of electricity generating capacity. The Corporation must relinquish effective control of at least 4,000 MW of fossil generating capacity within 42 months of Open Access, with the option of substituting up to 1,000 MW of hydroelectric generating capacity for an equal amount of fossil generating capacity. Within 10 years of Open Access, the Corporation must reduce its effective control over generation supply to a level that is no more than 35% of the Ontario market. In addition, an average annual price cap mechanism is to be applicable for the first 48 months after Open Access.

### 3. Summary of Significant Accounting Policies

**Basis of Accounting**

The financial statements of the Corporation are prepared in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities.

Prior to April 1, 1999, Ontario Hydro was governed by the *Power Corporation Act* (Ontario), which provided it with broad power to generate, supply and deliver electricity throughout Ontario. Ontario Hydro's Board of Directors had the authority, for rate setting purposes, to specify that an amount be included in its results of operations for a period that differed from the period in which it would be recognized under generally accepted accounting principles for enterprises operating in a non-rate regulated environment. In such cases, the accounting treatment was the same as its treatment for rate setting purposes.

### Consolidation

The consolidated financial statements include the accounts of Ontario Power Generation Inc. and its subsidiaries. The Corporation accounts for its interests in jointly controlled entities using the proportionate consolidation method.

### Inventories

Fuel inventory is valued at the lower of average cost or net realizable value.

Materials and supplies are valued at the lower of average cost or net realizable value with the exception of specific replacement parts which are unique to one of the nuclear or fossil generating stations. The cost of this replacement parts inventory is charged to operations on a straight line basis over the remaining life of the related facilities.

### Fixed Assets and Depreciation

Property, plant and equipment acquired by the Corporation on April 1, 1999 were recorded at fair values. Additions to property, plant and equipment subsequent to April 1, 1999, are recorded at cost. Interest costs incurred during construction are capitalized as part of the cost of the asset.

Depreciation rates for the various classes of assets are based on their estimated service lives. Assets are depreciated on a straight line basis except for computers and transport and work equipment, which are depreciated on the declining balance basis. Generating stations are depreciated on a straight line basis over-estimated service lives ranging from 25 to 100 years. Administration and service facilities are depreciated on a straight line basis over 5 to 50 years. Computers and transport and work equipment assets are depreciated at rates varying between 9% and 40%. Any asset removal costs that have not been specifically provided for in current, or previous periods, are also charged to depreciation expense.

### Nuclear Waste Management and Asset Removal

The Corporation recognizes a liability for fixed asset removal and nuclear waste management taking into account the time value of money since it is able to estimate both the amount and timing of future cash expenditures on these activities. On April 1, 1999, when the Acquired Business was transferred to the Corporation, the following costs were recognized as a liability:

- The present value of the costs of dismantling the nuclear and fossil production facilities at the end of their useful lives.
- The present value of the fixed cost portion of any nuclear waste management programs that are required regardless of volume of waste generated.
- The present value of the variable cost portion of any nuclear waste management program to take into account actual waste volumes incurred up to April 1, 1999.

Waste generated after April 1, 1999 will result in an increase to this liability. The Corporation funds this liability based on a pre-determined payment stream. This funding is segregated and used only for nuclear waste management or nuclear fixed asset removal. It is the Corporation's intent that these funds be held outside of the Corporation. Any actual costs incurred to operate waste management programs are applied against the segregated funds.

Revalorization arises because liabilities for used nuclear waste disposal and future fixed asset removal costs are stated in the balance sheet on a net present value basis. The revalorization charge is the adjustment that results from restating the liabilities to reflect the effect of inflation on the cost estimates and the time value of money effect on the future liabilities. The revalorization charge is sensitive to movements in interest and escalation rates. Revalorization is disclosed in the financial statements as part of depreciation and amortization.

Prior to April 1, 1999, the Acquired Business recognized decommissioning and nuclear waste liabilities over the expected operating lives of the nuclear and fossil plants or as quantities of waste were produced. As a result, the liability as stated under the Acquired Business was substantially lower than the liability recognized by the Corporation.

### Allocation of Debt and Financing Charges

The debt of Ontario Hydro, and related derivative financial instruments used to hedge interest rate and foreign exchange rate risks associated with such debt, was issued or incurred for general purposes and was not specifically identified with particular assets or businesses of Ontario Hydro. In addition, none of Ontario Hydro's debt and related derivatives have been assumed by or transferred to the Corporation as part of the reorganization of Ontario Hydro. As a result, the total debt and related derivatives and debt costs could not be specifically identified and therefore have been notionally allocated to the Acquired Business from Ontario Hydro solely for the purpose of preparing historical financial statements. Financing charges were allocated to the Acquired Business based on the Acquired Business's proportion of total Ontario Hydro debt.

### Revenue

Revenues are earned primarily through the sale of electricity to wholesale and large industrial customers in Ontario and to interconnected markets in the United States, Quebec and Manitoba. During the Transition Period, the average electricity prices charged to customers remain fixed and customers are billed on a bundled basis. The Corporation distributes the funds to the successor entities of Ontario Hydro under the terms of revenue allocation arrangements. The revenue allocation arrangements provide relatively fixed amounts to the other businesses. The revenue allocation arrangements were designed so the undistributed balance of funds would provide the Corporation with planned revenue of 4¢/kWh based on forecasted energy, together with a fixed amount for ancillary services. Changes in forecast demand and customer mix will vary the Corporation's actual revenue per kWh.

Prior to April 1, 1999, the Acquired Business operated in a rate-regulated environment. The electricity rates to customers were established to provide power at cost. The revenues disclosed for periods prior to April 1, 1999 were determined by an internal revenue allocation mechanism used by Ontario Hydro. Wholesale revenues were specifically identified and were based on actual delivered energy to municipal electric utilities and direct industrial customers at contract prices less amounts allocated in respect of transmission and system operation fees. Delivered energy to OHSC for retail customers was estimated at a negotiated inter business unit rate exclusive of transmission and system operation fees. Transmission and system operation fees payable to OHSC and the IMO were based on approved budgets. Revenue from interconnected markets are based on actual delivered energy at contract negotiated prices.

Non-energy revenues include earnings from services provided by the Corporation such as project management, engineering analysis and design, construction and field maintenance of power generation facilities and through the sale of various nuclear isotopes and generation by-products. The Corporation uses the percentage of completion method to recognize revenue on fixed price contracts with a defined scope of work. For other contracts, revenue is recognized as services are provided or products are delivered. Price escalation adjustments are recognized when they are established by specific contract terms. Commissions are recognized as earned.

### Foreign Currency Translation

Current monetary assets and liabilities in foreign currencies are translated into Canadian currency at year-end rates of exchange. Any resulting gain or loss is reflected in income. The Corporation enters into various hedging instruments in order to manage foreign exchange risk.

### Income and Other Tax

The Corporation is responsible under the *Electricity Act, 1998* for making payments in lieu of taxes (proxy taxes) to OEFC. These payments are calculated in accordance with the *Income Tax Act* (Canada) and *Corporations Tax Act* (Ontario), and modified by regulations made under the *Electricity Act, 1998*. The Corporation uses the deferral method of recognizing income taxes. Prior to April 1, 1999 the Acquired Business was not required to pay income or capital taxes.

The Corporation is also required to make payments in lieu of property and school taxes on its generating assets. The amount is equal to the difference between the amount it would be required to pay if the assets were privately owned and the amount of such taxes that the Corporation actually pays on those assets.

**Research and Development**

Development costs related directly to the design or construction of a specific fixed asset are capitalized as part of the cost of the asset. Research and development costs, which are incurred to discharge long term obligations such as the nuclear waste liabilities, for which specific provision has already been made, are charged to the related liability. All other research and development costs, which do not qualify for deferral, are charged to operations in the year incurred.

**Pension and Other Post Employment Benefits**

The Corporation's post employment benefit programs include pension, group life insurance, health care, long term disability and workers' compensation benefits.

The Corporation accrues its obligations under pension and other post employment benefit ("OPEB") plans and the related costs, net of plan assets. Pension fund assets are valued using current market values. Pension and OPEB expenses and obligations are determined annually by independent actuaries using management's best estimates.

Pension and OPEB expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions, and experience gains or losses, which are amortized on a straight line basis over the expected average remaining service life of the employees covered by the plan. Pension and OPEB expenses are recorded during the year in which employees render services.

**Credit Risk Management**

Credit risk is the risk of loss from non-performance by suppliers, customers or financial counter-parties to a contract. The Corporation maintains credit policies with respect to all its counter-parties, which management believes significantly minimizes overall credit risk. These policies include a review of a counter-party's financial condition.

**Application Software and Year 2000 Expenditures**

Major application software acquisition costs are capitalized when future benefits are reasonably assured. Expenditures incurred to identify and remedy information systems and applications that were not "Year 2000" compliant generally were charged to operations as incurred. When existing assets were replaced with new versions or new systems, the expenditures were capitalized.

## 4. Income Taxes

The Corporation became obligated to make payments in lieu of taxes on April 1, 1999. There were no income or capital taxes in the periods prior to April 1, 1999 related to the Acquired Business.

A reconciliation between the statutory and the effective rate of income taxes for the nine months ended December 31, 1999 is provided as follows:

| *(millions of dollars)* | APRIL 1 TO DECEMBER 31 1999 |
|---|---|
| Income before income taxes | 615 |
| Combined Canadian federal and provincial statutory income tax rates, including surtaxes | 44.6% |
| Statutory income tax rates applied to accounting income | 274 |
| Increase (decrease) in income taxes resulting from: | |
| Large corporation tax in excess of surtax | 19 |
| Manufacturing and processing credit | (9) |
| Other | 5 |
| | 15 |
| Provision for income taxes | 289 |
| The provision for income taxes consists of: | |
| Current | 214 |
| Deferred | 75 |
| Provision for income taxes | 289 |
| Effective rate of income taxes | 47.0% |
| The sources of timing differences and the computation of the effects on deferred income taxes were: | |
| Capital cost allowance in excess of depreciation and amortization claimed for book purposes | 66 |
| Other items deducted for tax purposes in advance of accounting purposes | 9 |
| Deferred income taxes | 75 |

The amount of taxes paid for the nine months ended December 31, 1999 was $237 million.

## 5. Cash and Cash Equivalents

Cash and cash equivalents include cash on account and short term investments of $255 million with maturities of less than three months recorded at cost which approximates current market value.

## 6. Fixed Assets and Depreciation and Amortization

The depreciation and amortization expense consists of the following:

| *(millions of dollars)* | APRIL 1 TO DECEMBER 31 1999 | ACQUIRED BUSINESS<br>JANUARY 1 TO MARCH 31 1999 | ACQUIRED BUSINESS<br>YEAR ENDED DECEMBER 31 1998 |
|---|---|---|---|
| Depreciation and amortization | 383 | 299 | 1,132 |
| Revalorization | 165 | 45 | 160 |
| Liability for nuclear waste management and asset removal | 20 | 37 | 131 |
| Asset removal costs | 5 | 4 | 18 |
| | 573 | 385 | 1,441 |

The fixed assets at period end consist of the following:

| *(millions of dollars)* | DECEMBER 31 1999 | ACQUIRED BUSINESS<br>DECEMBER 31 1998 |
|---|---|---|
| Property, plant and equipment | | |
| Generating stations | 12,093 | 37,008 |
| Other fixed assets | 530 | 1,210 |
| Construction in progress | 662 | 798 |
| | 13,285 | 39,016 |
| Less: accumulated depreciation | | |
| Generating stations | 339 | 11,488 |
| Other fixed assets | 44 | 678 |
| | 383 | 12,166 |
| | 12,902 | 26,850 |

Interest capitalized during the nine months ended December 31, 1999 was $11 million, (three months ended March 31, 1999: $8 million; 1998: $29 million).

## 7. Nuclear Waste Management and Asset Removal

The Corporation's nuclear generating stations produce nuclear waste in the form of radioactive nuclear fuel bundles along with low and intermediate level radioactive waste. In addition, certain components of the plants become contaminated with radiation and therefore need to be safely decommissioned. The Corporation is also required to decommission its non-nuclear facilities.

The nuclear waste management and asset removal fund consists of:

| *(millions of dollars)* | DECEMBER 31 1999 | ACQUIRED BUSINESS<br>DECEMBER 31 1998 |
|---|---|---|
| Nuclear asset removal fund | 215 | – |
| Nuclear waste management fund | 152 | – |
| | 367 | – |

The net liability for nuclear waste management and asset removal is as follows:

| *(millions of dollars)* | DECEMBER 31 1999 | ACQUIRED BUSINESS<br>DECEMBER 31 1998 |
|---|---|---|
| Liability for nuclear waste management | 4,304 | 1,485 |
| Liability for nuclear fixed asset removal | 2,287 | 866 |
| Liability for nuclear fuel channel removal | – | 674 |
| | 6,591 | 3,025 |
| Liability for non-nuclear fixed asset removal | 124 | 176 |
| | 6,715 | 3,201 |
| Less: provincial contribution | 2,480 | – |
| Nuclear waste management and asset removal | 4,235 | 3,201 |

Liabilities for nuclear waste management and fixed asset removal costs for periods prior to April 1, 1999 were recognized over the expected operating lives of the nuclear and fossil plants or as quantities of waste were produced. As of April 1, 1999, the present value of the currently committed liabilities, including the cost of dismantling facilities at the end of their useful lives and the fixed cost portion of nuclear waste management programs, were recognized in full. As a result, the liability recognized by the Corporation as at December 31, 1999 was substantially higher than the liability as at December 31, 1998.

The expenses related to nuclear waste management and asset removal are as follows:

| *(millions of dollars)* | APRIL 1 TO DECEMBER 31, 1999<br>NON-NUCLEAR ASSETS | NUCLEAR ASSETS | NUCLEAR WASTE | TOTAL | ACQUIRED BUSINESS<br>JANUARY 1 TO MARCH 31 1999 | YEAR ENDED DECEMBER 31 1998 |
|---|---|---|---|---|---|---|
| Revalorization | 3 | 93 | 69 | 165 | 45 | 160 |
| Fuel | – | – | 13 | 13 | 45 | 146 |
| Depreciation and amortization | – | – | 20 | 20 | 37 | 131 |
| | 3 | 93 | 102 | 198 | 127 | 437 |

The accrual of nuclear waste management and fixed asset removal costs requires significant assumptions in their calculations, since these programs run for several decades. The decommissioning of nuclear stations requires cash flow estimates to 2071. The interest rate used for discounting was 5.75% (1998: 6% to 8%) and cost escalation rates ranged from 2% to 4% (1998: 2% to 4%).

Significant assumptions underlying many operational and technical factors are also used in the calculation of the accrued liabilities and are subject to periodic review. Changes to these assumptions, as well as changes to assumptions on the timing of the programs or the technology employed, could result in significant changes to the value of the accrued liabilities. With programs of this duration and the evolving technology to handle the nuclear waste, there is a degree of risk surrounding the measurement of the costs for these programs.

### Liability for Nuclear Waste Management Costs

These accrued costs represent the cost of managing the highly radioactive used nuclear fuel bundles, as well as the cost of managing other low and intermediate level radioactive wastes generated by the nuclear stations. The current assumptions that have been used to establish the accrued used fuel costs include: long term management of the spent fuel bundles through deep geological disposal; an in-service date of 2025 for used nuclear fuel disposal facilities; and an average transportation distance of 1,000 kilometers between nuclear generating facilities and the disposal facilities. The increase in the accrued costs for used nuclear fuel from current period operations is charged to fuel costs for the period.

In December 1998, the federal government issued a response to a government panel report (known as the Seaborn Report) that in part required the producers of used nuclear fuel in Canada to conduct a study of long term disposal options for used nuclear fuel. Such a study will include deep geological disposal as an option, but may not necessarily conclude that option as the preferred one for Canada. The Corporation has taken the lead role in this study. The results of this study have the potential to significantly impact on the value of these accrued costs.

The costs of low and intermediate level waste management include both the costs of managing such wastes during the operation of the nuclear stations as well as the costs of ultimate long term disposal of those wastes. The current assumptions used to establish the accrued low and intermediate level waste management costs include: construction of disposal facility for low level waste to be in place by 2015; co-locating some of the intermediate level waste with low level waste starting in 2015; and co-locating the remainder of the intermediate level waste with used fuel starting in 2034. The increase in the accrued costs for low and intermediate level waste due to the waste produced during the period are charged to depreciation and amortization for the period.

**Liability for Nuclear Fixed Asset Removal Costs**

Accrued nuclear fixed asset removal costs are the costs of decommissioning nuclear generating stations after the end of their service lives. The significant assumptions used in estimating future fixed asset removal costs were: decommissioning of nuclear generating stations in the 2028 to 2058 period on a deferred dismantlement basis (dismantlement following storage with surveillance for a 30 year period after shutdown of the reactors), and an average transportation distance of 1,000 kilometers between nuclear generating facilities and disposal facilities.

**Liability for Nuclear Fuel Channel Removal Costs**

A provision was established by the Acquired Business to provide for the costs of removing fuel channels in nuclear generating stations for rate setting purposes. Fuel channels are required to be replaced in the future in order to extend the life of a nuclear generating station. This rate setting practice is not applicable for the Corporation.

**Liability for Non-nuclear Asset Removal Costs**

Accrued non-nuclear asset removal costs are primarily the costs of decommissioning fossil generating stations and the heavy water production facility after the end of their service lives. The significant assumption used in estimating future fossil generating station removal costs is that the estimated retirement date of these stations is in the period 2005 to 2025. The impact of restating the fossil decommissioning accrual is recognized over the remaining life of the related facilities.

The Corporation does not provide for the removal costs associated with its hydroelectric generating facilities as the costs are not reasonably estimable because of the long service life of these assets. With either maintenance efforts or rebuilding, the water control structures are assumed to be required for the foreseeable future.

**Provincial Contribution to Nuclear Waste Management**

On April 1,1999, the Province agreed to fund certain nuclear waste management and asset removal liabilities that were incurred prior to April 1, 1999. The particulars of which liabilities are to be funded are currently under discussion with the Province and are shown in this note as a reduction to the total liability. The balance of $2,480 million represents the liability of $2,378 million as at April 1, 1999, as well as interest in the amount of $102 million accrued during the nine month period ending December 31, 1999 based on a rate of 5.75%. The interest rate is still under negotiation with the Province and is subject to change. The impact of the finalization of the interest rate for 1999 is not expected to result in a material difference to a liability balance.

**Internally Segregated Funds**

The Corporation is contributing to segregated funds to provide for or discharge the remaining unfunded nuclear liabilities. It is the Corporation's intent that these funds be held outside of the Corporation and be used solely for nuclear waste remediation and nuclear fixed asset removal. Until such time as the legal nature of the segregated funds can be established, the Corporation has set these funds aside internally and is managing their investment and growth distinct from its other cash holdings. These funds amount to $367 million at December 31, 1999. Included in the $367 million is $6 million in interest earned on the balances in the fund during 1999.

**Nuclear Risk Sharing**

The Corporation and senior staff at the Ontario Ministry of Finance have reached an understanding on key principles for the development of a nuclear risk sharing agreement. In order to implement these principles however, it will be necessary to successfully negotiate a definitive agreement and obtain the necessary authorizations from the Province including any necessary Orders in Council. The Province would provide a risk sharing cap on certain nuclear waste management costs in the event that the estimated present value of these costs were to exceed certain thresholds. Execution of this agreement would effectively limit the Corporation's exposure to significant increases in the estimated present value costs of nuclear waste management.

**Role of External Parties in the Management of Nuclear Wastes and Impact on Liabilities**

The calculation of required provision, the access to segregated funds and the control over the work related to these expenditures is planned to be controlled outside of the Corporation in the future. The segregated funds will be held independent of the Corporation with access to those funds controlled and monitored by several parties, including the Atomic Energy Control Board. The Corporation has a requirement to contribute to those segregated funds in a pre-determined manner that will be established based on estimates and assumptions calculated by external bodies. An external Waste Management Organization will be established for the life cycle management of nuclear waste that will be financed through the external funds.

**Financial Assurances for Nuclear Waste Management and Decommissioning**

The Atomic Energy Control Board issued a proposed regulatory guide on financial assurances for the decommissioning of licensed activities on September 30, 1998. Under this guide, the Corporation could be required to provide financial assurances up to the full amount of the present value of its currently incurred liability. The guide permits this financial assurance to be provided by a government guarantee. Under the proposed risk sharing agreement, the Province or its agent would provide this guarantee for an annual fee of 0.5% of the amount of guarantee given.

## 8. Long Term Debt

The long term debt at period end consists of the following:

| | | ACQUIRED BUSINESS |
|---|---|---|
| *(millions of dollars)* | DECEMBER 31 1999 | DECEMBER 31 1998 |
| Notes payable to OEFC | 3,400 | – |
| Capital lease obligations | 26 | 33 |
| Allocated Ontario Hydro notes payable | – | 22,218 |
| | 3,426 | 22,251 |
| Less: payable within one year | | |
| Capital leases | 4 | 6 |
| Allocated Ontario Hydro notes payable | – | 1,934 |
| | 4 | 1,940 |
| Long term debt | 3,422 | 20,311 |

Details of the Corporation's long term notes outstanding as at December 31, 1999 are as follows:

| YEAR OF MATURITY | INTEREST RATE (%) | PRINCIPAL OUTSTANDING *($ Canadian)* SENIOR NOTES | SUBORDINATE NOTES | TOTAL |
|---|---|---|---|---|
| 2001 | 5.35 | 200 | – | 200 |
| 2002 | 5.44 | 200 | – | 200 |
| 2003 | 5.49 | 200 | – | 200 |
| 2004 | 5.62 | 300 | – | 300 |
| 2005 | 5.71 | 300 | – | 300 |
| 2006 | 5.78 | 300 | – | 300 |
| 2007 | 5.85 | 400 | – | 400 |
| 2008 | 5.90 | 400 | – | 400 |
| 2009 | 6.01 | 350 | – | 350 |
| 2010 | 6.60 | – | 375 | 375 |
| 2011 | 6.65 | – | 375 | 375 |
| | | 2,650 | 750 | 3,400 |

Holders of the senior debt are entitled to receive in full, amounts owing in respect of the senior debt before holders of the subordinated debt are entitled to receive any payments. At December 31, 1999, the fair value of the outstanding long term debt is approximately $3,200 million. The Corporation's exposure to interest rate risk is limited by the fixed rates on the long term debt.

Prior to April 1, 1999 the debt of Ontario Hydro, and related derivative financial instruments used to hedge interest and foreign exchange rate risks associated with such debt, were issued or incurred for general purposes and were not specifically identified with particular assets or businesses of Ontario Hydro. None of Ontario Hydro's debt and related derivatives have been assumed by or transferred to the Corporation as part of the reorganization of Ontario Hydro. As a result, the total debt and related derivatives and debt costs of Ontario Hydro have been notionally allocated to the Acquired Business.

### 9. Short Term Credit Facilities

The Corporation has arranged a credit facility for $600 million with certain Canadian chartered banks ("Bank Credit Agreement") to fund working capital requirements and general corporate purposes. This facility may be drawn upon in either Canadian or United States dollars at varying rates based on certain benchmark rates, including a prime rate, a bankers' acceptance rate, and a LIBOR rate. The Bank Credit Agreement became effective on September 1, 1999. Prior to September 1, 1999 the Corporation negotiated a temporary credit agreement with OEFC whereby it could have borrowed from OEFC on substantially the same financial terms and conditions as those in the Bank Credit Agreement.

### 10. Common Shares

The Corporation is authorized to issue an unlimited number of common shares without nominal or par value. Common shares issued and outstanding are:

| | DECEMBER 31, 1999 SHARES | $ (MILLIONS) |
|---|---|---|
| Issued to the Province upon incorporation on December 1, 1998 | 10 | |
| Issued to the Province in settlement of debt on April 1, 1999 | 256,300,000 | 5,126 |
| | 256,300,010 | 5,126 |

### 11. Related Party Transactions

The Corporation, the Province, and the other successor entities of Ontario Hydro, which include OHSC, IMO, OEFC, and Ontario Electricity Pension Services Corporation ("OEPSC") which manages the pension fund on behalf of the Corporation, became related parties as at April 1, 1999. Prior to April 1, 1999, the Province was a related party to Ontario Hydro and it's fully integrated business units.

The following summarizes the transactions for the nine months ended December 31, 1999 between the Corporation and related parties. These transactions are in the normal course of business under normal trade terms:

| *(millions of dollars)* | APRIL 1 TO DECEMBER 31, 1999 SALES | PURCHASES |
|---|---|---|
| OHSC | | |
| Electricity sales | 640 | - |
| Services | 45 | 40 |
| IMO | | |
| Ancillary services | 75 | - |
| OEPSC | | |
| Services | 10 | - |
| | 770 | 40 |

For the nine months ended December 31, 1999, payments to the Province for water rentals were $90 million (three months ended March 31, 1999: $30 million, 1998: $118 million). Payments to the Province for the debt guarantee fee were nil for the nine months ended December 31, 1999 (three months ended March 31, 1999: $31 million, 1998: $124 million).

### 12. Research and Development

For the nine months ended December 31, 1999, $19 million (three months ended March 31, 1999: $15 million, 1998: $56 million) of research and development expenses were charged to operations, and $10 million (three months ended March 31, 1999: $2 million, 1998: $7 million) were charged to accrued liabilities. Development costs of $2 million (three months ended March 31, 1999: nil, 1998: $3 million) were capitalized.

### 13. Non-cash Working Capital Changes

| *(millions of dollars)* | APRIL 1 TO DECEMBER 31 1999 | ACQUIRED BUSINESS JANUARY 1 TO MARCH 31 1999 | YEAR ENDED DECEMBER 31 1998 |
|---|---|---|---|
| Increase (decrease) in cash flow due to: | | | |
| Accounts receivable | (152) | (134) | (20) |
| Fuel | (98) | 81 | (88) |
| Materials and supplies | (32) | 20 | (23) |
| Accounts payable and accrued charges | (4) | 158 | 100 |
| Accrued interest | 99 | 48 | (31) |
| Long term accounts payable | 48 | 15 | 196 |
| Other | 43 | – | – |
| | (96) | 188 | 134 |

Interest paid during the nine months ended December 31, 1999 was $95 million (three months ended March 31, 1999: $548 million, 1998: $2,196 million).

## 14. Segmented Information

The Corporation operates as a single segment business generating electricity in Ontario. Substantially all sales are in Canada. Electricity sales to the United States were $200 million in the nine months ended December 31, 1999 (three months ended March 31, 1999: $10 million, 1998: $111 million). Sales to two customers represent 30% of total revenue for the nine months ended December 31, 1999, and 25% of accounts receivable as at December 31, 1999.

## 15. Contingencies and Commitments

### Municipal Electric Utilities ("MEU")

On April 24, 1997, three MEUs (the "Applicants") issued a notice of application against Ontario Hydro in the Ontario Court (General Division) (the "MEU Litigation"). The MEU Litigation has been certified as a class proceeding on behalf of all MEUs in Ontario. The Applicants seek declarations that certain rates and pricing options offered by Ontario Hydro to corporations contravened the provisions of the *Power Corporation Act* (Ontario), and that these rates and pricing options improperly increased costs to the MEUs that purchase their power from the Corporation. They seek recovery of the increased costs in the amount of approximately $145 million and a declaration that Ontario Hydro improperly diverted, from miscellaneous revenues, monies, in an indeterminate amount, which should have been used to reduce the cost of power supplied to these MEUs. The Applicants are also seeking declarations that Ontario Hydro breached legislative provisions prescribing the operation of the Reserve for Stabilization of Rates and Contingencies and an equity account of Ontario Hydro known as the accumulated debt retirement appropriation (the "ADR account"), and an order requiring repayment to the ADR account in the amount of $5,050 million. The Province will indemnify the Corporation from and against all claims relating to the creation, treatment, payment to or from or other dealings with the ADR account, and the financial statements of Ontario Hydro in relation to the ADR account including any amount relating to any judgment, settlement or other payment in connection with the MEU Litigation, subject to a $20 million deductible amount.

### Request for Judicial Review

In May 1999, an application was commenced by the Inverhuron & District Ratepayers Association ("IDRA") in the Federal Court Trial Division, requesting judicial review of the decisions of the federal Minister of the Environment, the Minister of Fisheries and Oceans and the Atomic Energy Control Board with regard to the Bruce used fuel dry storage facility. The goal of the application is to void the Minister of the Environment's decision pursuant to the *Canadian Environmental Assessment Act* which would allow the project to proceed and to have the project referred to a review panel or mediator. The Corporation was not originally a party to the application but was successful on a motion to be added as a responding party early in the process.

The hearing of the judicial review application took place on January 10 and 11, 2000. Submissions were made by IDRA, the Corporation and by the Federal Government. The Court has reserved its decision. Until the Corporation is advised of the Court's decision, the Corporation is unable to ascertain the impact of this application on its business, results of operations, financial condition or prospects.

### Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The Corporation has completed a significant program that upgraded or replaced affected systems on which it and its customers depend, prior to the year 2000. With the change in date there have been no system failures affecting the Corporation's ability to conduct normal business operations and financial reporting. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Corporation, including those related to customers, suppliers, or other third parties, have been fully resolved. A further milestone was reached when the Corporation experienced no system failures with the passing of the February 29, 2000 date.

### Environment

The Corporation inherited legacy obligations from the Acquired Business arising from environmental matters. A provision of $76 million was established as at April 1, 1999 for such obligations. Charges of $6 million were made against this provision during the nine months ended December 31, 1999. Also, the Corporation's current operations are subject to regulation with respect to air, soil and water quality and other environmental matters by federal, provincial and local authorities. The cost of obligations associated with current operations is provided for on an ongoing basis. Management believes it has made adequate provision in its financial statements to meet the Corporation's current environmental obligations.

### Fuel Supply Agreements

The Corporation has entered into firm fuel supply agreements, some of which extend beyond 2000. The future obligation under these agreements for 2000 is estimated to be $727 million, and $568 million beyond 2000.

## 16. Benefit Plans

The Corporation's post employment benefit programs include pension, group life insurance, health care, long term disability and workers' compensation benefits. Pension fund assets and obligations, other post employment obligations and related expenses are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions and experience gains or losses.

The pension information presented in the financial statements is derived from the OEFC pension plan based on the Corporation's proportionate share of the OEFC pension plan assets and liabilities taking into account actual employees and pensioners. Other post employment benefit information presented in the financial statements as at December 31, 1999 and for the nine months ended December 31, 1999, is also based on the Corporation's actual employees and pensioners. Prior to April 1, 1999, such information was based on the Acquired Business's proportionate share of Ontario Hydro's payroll, resulting in allocation adjustments.

### Pension Plan

The pension plan is a contributory, defined benefit plan covering all regular employees. The Corporation's pension plan was established effective December 31, 1999. Until that date, employees and pensioners continued as members of the OEFC pension plan, formerly the Ontario Hydro Pension and Insurance Plan.

The pension fund assets principally include marketable equity securities, and corporate and government debt securities, which are selected by professional investment managers. The fund does not invest in equity or debt securities issued by the Province, OHSC, IMO, ESA, OEFC, or the Corporation.

The pension plan has a substantial excess of assets over obligations ("Surplus"). The Corporation has suspended contributions to the plan as permitted under the *Pension Benefits Act* (Ontario) and the *Electricity Act, 1998*.

Information about the Corporation's allocated portion of the pension plan is as follows:

| *(millions of dollars)* | DECEMBER 31 1999 | ACQUIRED BUSINESS DECEMBER 31 1998 |
|---|---|---|
| **Pension Plan Assumptions** | | |
| Expected return on plan assets | 7.25% | 9% |
| Rate used to discount future pension benefits | 7.25% | 6% |
| Salary schedule escalation rate | 3.50% | 3.50% |
| Rate of cost of living increase to pensions | 2.50% | 2.50% |
| Average remaining service life for employees *(years)* | 12 | 12 |
| **Change in Pension Plan Assets** | | |
| Fair value of plan assets at beginning of year | 7,908 | 7,426 |
| Contributions by the Corporation | - | 21 |
| Contributions by the employees | 49 | 51 |
| Actual return on plan assets | 1,018 | 665 |
| Benefit payments | (245) | (254) |
| Administrative expense | (13) | (1) |
| Allocation adjustment | (1,443) | - |
| Fair value of plan assets at end of year | 7,274 | 7,908 |

| *(millions of dollars)* | DECEMBER 31 1999 | ACQUIRED BUSINESS DECEMBER 31 1998 |
|---|---|---|
| **Change in Projected Pension Benefit Obligation** | | |
| Projected benefit obligation at beginning of year | 7,098 | 4,699 |
| Current service cost | 218 | 131 |
| Past service costs | - | 149 |
| Interest on projected benefit obligation | 359 | 397 |
| Benefit payments | (192) | (242) |
| Net actuarial (gain) loss | (1,098) | 1,964 |
| Allocation adjustment | (1,211) | - |
| Projected benefit obligation at end of year | 5,174 | 7,098 |
| **Pension Plan Surplus** | 2,100 | 810 |
| **Reconciliation of Pension Plan Surplus** | | |
| Pension plan surplus | 2,100 | 810 |
| Unamortized net actuarial (gain) loss | (1,584) | (87) |
| Deferred pension asset | 516 | 723 |

| *(millions of dollars)* | APRIL 1 TO DECEMBER 31 1999 | ACQUIRED BUSINESS JANUARY 1 TO MARCH 31 1999 | ACQUIRED BUSINESS YEAR ENDED DECEMBER 31 1998 |
|---|---|---|---|
| **Components of Pension Expense** | | | |
| Current service cost | 124 | 42 | 99 |
| Interest on projected benefit obligation | 269 | 106 | 401 |
| Expected return on plan assets | (339) | (142) | (665) |
| Amortization of past service costs | - | - | 64 |
| Amortization of net actuarial (gain) loss | (15) | (1) | (133) |
| Amortization of transitional asset | - | - | (21) |
| Adjustment for surplus ownership | - | - | 272 |
| Pension expense | 39 | 5 | 17 |

**Other Post Employment Benefits**

Payments for OPEB benefits during the nine months ended December 31, 1999 are $35 million (three months ended March 31, 1999: $15 million, 1998: $51 million). The long term annual increase in the per capita cost of the major benefits ranges between 2.5% and 4.5% (1998: between 2.5% and 4.5%), depending on the nature of the benefit. The discount rate used in determining the actuarial present value of the OPEB obligation ranges between 7.0% and 7.5% at December 31, 1999 (1998 : between 5.5% and 6.0%).

Information about the Corporation's OPEB is as follows:

| *(millions of dollars)* | DECEMBER 31 1999 | ACQUIRED BUSINESS DECEMBER 31 1998 |
|---|---|---|
| **Change in Projected OPEB Obligation** | | |
| Projected OPEB obligation at beginning of year | 1,088 | 704 |
| Current service cost | 41 | 29 |
| Interest on projected benefit obligation | 56 | 64 |
| Benefit payments | (40) | (50) |
| Net actuarial (gain) loss and past service costs | (180) | 341 |
| Allocation adjustment | (137) | - |
| Projected OPEB obligation at end of year | 828 | 1,088 |
| **Reconciliation of OPEB Obligation** | | |
| Accrued OPEB obligation at end of year | | |
| Long term obligation | 959 | 1,037 |
| Short term obligation | 43 | 51 |
| Unrecognized net actuarial (gain) loss and past service costs | (174) | - |
| Projected OPEB obligation at end of year | 828 | 1,088 |

| *(millions of dollars)* | ACQUIRED BUSINESS<br>APRIL 1 TO DECEMBER 31 1999 | JANUARY 1 TO MARCH 31 1999 | YEAR ENDED DECEMBER 31 1998 |
|---|---|---|---|
| **Components of OPEB Expense** | | | |
| Current service cost | 32 | 12 | 29 |
| Interest on projected benefit obligation | 42 | 16 | 64 |
| Amortization of net actuarial (gain) loss and past service costs | (3) | - | 30 |
| OPEB expense | 71 | 28 | 123 |

The new method of accounting for pensions and employee future benefits approved by the Canadian Institute of Chartered Accountants was adopted by the Acquired Business in the fourth quarter of 1998. The major effect of adopting this new method was to change the discount rate used to determine the projected pension benefit obligation and the OPEB obligation from a long term average rate to a current market settlement rate. This change resulted in a transition amount of $344 million, which related to the OPEB obligation being charged to deficit of assets over liabilities for the year ended December 31, 1998.

## 17. Pro Forma Consolidated Statements of Income (Unaudited)

Pro forma consolidated statements of income have been prepared to reflect the purchase of the Acquired Business as if the purchase of net assets had occurred on January 1, 1999 and on January 1, 1998.

| *(millions of dollars)* | 1999<br>APRIL 1 TO DECEMBER 31 ACTUAL | ACQUIRED BUSINESS<br>JANUARY 1 TO MARCH 31 ACTUAL | ADJUSTMENTS | JANUARY 1 TO DECEMBER 31 PRO FORMA |
|---|---|---|---|---|
| **Revenues** | 4,339 | 1,784 | (327) | 5,796 |
| **Operating expenses** | | | | |
| Operation, maintenance and administration | 1,791 | 558 | 16 | 2,365 |
| Fuel | 816 | 335 | (35) | 1,116 |
| Power purchased | 153 | 45 | - | 198 |
| Depreciation and amortization | 573 | 385 | (193) | 765 |
| Property and capital taxes | 256 | - | 85 | 341 |
| | 3,589 | 1,323 | (127) | 4,785 |
| Interest expense | 135 | 560 | (515) | 180 |
| Income taxes | 289 | - | 96 | 385 |
| Net Income | 326 | (99) | 219 | 446 |

| *(millions of dollars)* | JANUARY 1 TO DECEMBER 31, 1998<br>ACQUIRED BUSINESS<br>ACTUAL | ADJUSTMENTS | PRO FORMA |
|---|---|---|---|
| **Revenues** | 6,392 | (1,007) | 5,385 |
| **Operating expenses** | | | |
| Operation, maintenance and administration | 2,241 | (155) | 2,086 |
| Fuel | 1,148 | (117) | 1,031 |
| Power purchased | 175 | - | 175 |
| Depreciation and amortization | 1,441 | (707) | 734 |
| Property and capital taxes | - | 348 | 348 |
| | 5,005 | (631) | 4,374 |
| Interest expense | 2,301 | (2,105) | 196 |
| (Income) expense from deferred pension asset | (655) | 168 | (487) |
| Income taxes | - | 689 | 689 |
| Net Income | (59) | 872 | 613 |

**Basis of Presentation and Pro Forma Assumptions and Adjustments**

The pro forma consolidated statement of income for the year ended December 31, 1999 is comprised of the consolidated statement of income for the nine months ended December 31, 1999 for the Corporation and the pro forma consolidated statement of income for the three months ended March 31, 1999. The pro forma consolidated statements of income for the three months ended March 31, 1999 and for the year ended December 31, 1998 have been prepared from the consolidated statements of income of the Acquired Business for the periods then ended. The pro forma consolidated statements of income are not necessarily indicative of the results of operations that would have resulted had the relevant transactions taken place at the respective dates referred to below.

The Corporation is an unregulated commercial enterprise, whereas the Acquired Business was a rate regulated entity. Since accounting policies followed by rate regulated enterprises differ in some respects from those followed by non-rate regulated enterprises, certain of the liabilities and expenses recorded by the Acquired Business would have been recorded differently by the Corporation.

The pro forma consolidated statements of income for the years ended December 31, 1999 and 1998 include the following assumptions and adjustments:

**Revenues**

During the transition period of the Ontario electricity industry, all consumers will continue to pay their electricity bills on a bundled basis. The Corporation's share of revenue out of this bundled pool in 1999 was planned to be 4 cents/kWh for Ontario sales based on estimated demand for 1999, together with a fixed amount for ancillary services. The impact of this new revenue regime is a reduction of $336 million and $1,007 million for the three months ended March 31, 1999 and for the year ended December 31, 1998, respectively. For the three months ended March 31, 1999, an adjustment of $12 million has been made to reclassify external revenues that were previously recognized as internal revenues and credited to operation, maintenance and administration expenses ("OM&A"). An adjustment has also been made to recognize a revenue pool loss of $3 million for first quarter of 1999. The deregulation of the Ontario energy market, as well as the Province's market sub-

**OM&A**

OM&A expenses for the three months ended March 31, 1999 have been adjusted by $16 million which includes the reclassification of $12 million of external revenues previously recognized as internal revenues and an adjustment for taxes which were overestimated by $4 million. The 1999 revenue allocation agreement excludes rural rate assistance and transmission and facility charges, whereas the 1998 revenue allocation agreement included these costs in OM&A. Accordingly, $155 million of such costs have been removed from the 1998 pro forma OM&A expenses.

**Fuel**

As part of the restructuring of Ontario Hydro, the obligation to fund the future costs of nuclear waste disposal and nuclear plant decommissioning was transferred to the Corporation. The Corporation was also required to recognize the full committed liability of $6,317 million and $6,226 million as at March 31, 1999 and December 31, 1998, respectively. As a result, the amount charged to operations for these periods with respect to the future obligation for these liabilities, is less than the amount formerly charged to operations. Accordingly, for the three months ended March 31, 1999 and the year ended December 31, 1998, fuel expense has been adjusted by $35 million and $117 million, respectively, with respect to nuclear waste disposal. Similarly, depreciation and amortization has been adjusted by $30 million and $84 million, respectively, for nuclear decommissioning.

**Depreciation and Amortization**

The net book value of the fixed assets of the Acquired Business, which amounted to $26,850 million, was adjusted by an amount of $13,978 million reducing the net book value of fixed assets to their fair value of $12,872 million as at March 31, 1999. As a result of the new asset base, depreciation and amortization expense would have been lower by $177 million and $685 million for the three months ended March 31, 1999 and for the year ended December 31, 1998, respectively. Included in depreciation and amortization is an adjustment for the revalorization charge, calculated on the unfunded portion of the accrued fixed asset removal and nuclear waste management provisions, of $14 million and $62 million for the three months ended March 31, 1999 and for the year ended December 31, 1998, respectively. As noted above, $30 million and $84 million of lower charges to operations for nuclear decommissioning were also allocated to depreciation and amortization expense for the three months ended March 31, 1999 and for the year ended December 31, 1998, respectively.

**Interest Expense**

Interest expense includes interest on debt financing. As a result of the new capitalization of the Corporation and lower interest rates for the Corporation's long term debt, interest expense would have been lower by $484 million and $1,981 million for the three months ended March 31, 1999 and for the year ended December 31, 1998, respectively. The Province will no longer guarantee the Corporation's debt to third parties after April 1, 1999. Accordingly, the Corporation will not incur the provincial debt guarantee fee previously included in interest expense. The elimination of this guarantee fee, which had an impact of $31 million and $124 million for the three months ended March 31, 1999 and the year ended December 31, 1998, respectively, is reflected in the net reduction in interest expense.

**Income from Deferred Pension Asset**

The Acquired Business's income from deferred pension asset for the year ended December 31, 1998 was allocated on the basis of proportionate payroll. On April 1, 1999, the pension asset was calculated on the basis of the proportion that the actual number of employees and retirees transferred to the Corporation represented of the total number of employees and retirees of Ontario Hydro. Accordingly, for the year ended December 31, 1998, an income statement adjustment of $168 million, reducing the income from deferred pension asset, was made to reflect the actuarial recalculation of the Corporation's deferred pension asset.

**Income, Property and Capital Taxes**

The Acquired Business was exempt from tax under the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario). However, pursuant to the *Electricity Act, 1998*, the Corporation is required to pay to OEFC an amount referred to as a "proxy tax". The proxy tax is generally equal to the amount of income and capital taxes the Corporation would be liable to pay under the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), if it were not exempt. *The Electricity Act, 1998* also provides that the Corporation is required to make additional payments in lieu of property tax each year to OEFC on its electricity generating assets. Accordingly, the pro forma adjustments reflect the recognition of property and capital taxes of $85 million and $348 million for the three months ended March 31, 1999 and for the year ended December 31, 1998, respectively. In addition, proxy taxes in lieu of federal and Ontario income taxes plus the federal large corporations tax, have been recognized in the amount of $96 million and $689 million for the three months ended March 31, 1999 and for the year ended December 31, 1998, respectively.

## 18. Decontrol, Joint Ventures and Partnerships

**Bruce Nuclear Power Development**

In September 1999, the Corporation began a process to determine levels of interest in various private equity investment or partnership options, for its nuclear program and announced its intention to invite proposals for its nuclear assets located at the Bruce Nuclear Power Development ("BNPD") site in southwestern Ontario. Among the assets located at the site are the Bruce nuclear generating units 5 to 8 which are currently operational, as well as the Bruce nuclear generating units 1 to 4 which have been in a temporary lay up state since March 1998. Other assets such as training facilities, conventional waste treatment facilities and other infrastructure also are located at the site. In addition, radioactive waste handling and storage facilities for all of the Corporation's nuclear operations are located within the physical boundaries of the BNPD. Discussions with potential partners/purchasers are ongoing. Any negotiations will have to consider the physical assets on the site, the radioactive waste management facilities and the treatment of any nuclear waste liabilities that are inherent with the transaction. These financial statements include all results from operations and balances for all assets and liabilities of the Corporation for the nine months ended and as at December 31, 1999.

**Lakeview and Lennox Generating Stations**

In response to the request of the Minister of Energy, Science and Technology that the Corporation accelerate the schedule for decontrol, the Corporation is developing plans for decontrol of approximately 4,000 MW of predominantly fossil generation, including the 2,140 MW Lennox station near Kingston and the 1,140 MW Lakeview station in Mississauga.

**Joint Ventures and Other Transactions**

The Corporation is currently in discussions with major information technology companies to transfer employees, data centre and equipment to a third party company that will provide information technology services to the Corporation and to other energy companies.

Ontario Power Technologies, the technical-innovation and development division of the Corporation, is forming a joint venture with AEA Technology of the United Kingdom, SCIENTECH of the United States, and CANATOM NPM in Canada. Upon closing the transaction, the three new partners would have a 10 percent cumulative stake in Ontario Power Technologies and options on a further 40 percent. The partners bring considerable marketing and technology development capabilities to the venture.

# Ontario Electricity Financial Corporation

## Responsibility for Financial Reporting

The accompanying financial statements of the Ontario Electricity Financial Corporation have been prepared in accordance with accounting principles generally accepted in Canada and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to May 26, 2000.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board of Directors.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee meets periodically with management, the internal auditors and the external auditor to deal with issues raised by them and to review the financial statements before recommending approval by the Board of Directors.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and his opinion.

On behalf of Management:

Gadi M

Gadi Mayman
Vice-Chair and
Chief Executive Officer
(Interim)

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

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***Auditor's Report***

To the Ontario Electricity Financial Corporation
and to the Minister of Finance

I have audited the consolidated balance sheet of the Ontario Electricity Financial Corporation as at March 31, 2000 and the consolidated statements of revenue, expense and unfunded liability and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting principles.

Erik Peters

Toronto, Ontario
May 26, 2000

Erik Peters, FCA
Provincial Auditor

# Ontario Electricity Financial Corporation

## Consolidated Balance Sheet as at March 31, 2000

**(with comparative figures at April 1, 1999)**

**($ Millions)**

| | March 31 2000 | April 1 1999 |
|---|---|---|
| **ASSETS** | | |
| Current Assets (Note 3) | | |
| Cash and temporary investments (Note 4) | $ 2 | $ 19 |
| Accounts receivable | 134 | 76 |
| Interest receivable | 119 | |
| Current portion of notes receivable (Note 6) | 1,533 | 650 |
| | 1,788 | 745 |
| Electricity sector dedicated income due from Province (Note 5) | 383 | |
| Notes and loans receivable (Note 6) | 15,894 | 16,756 |
| Deferred debt costs | 914 | 1,157 |
| | $ 18,979 | $ 18,658 |
| **LIABILITIES** | | |
| Current Liabilities | | |
| Accounts payable | $ 101 | $ 197 |
| Interest payable | 726 | 744 |
| Short-term notes payable (Note 7) | 3,446 | 2,751 |
| Current portion of long-term debt (Note 7) | 2,226 | 1,569 |
| | 6,499 | 5,261 |
| Long-term debt (Note 7) | 25,666 | 26,166 |
| Power purchase contracts (Note 8) | 4,286 | 4,286 |
| Nuclear risk funding (Note 8) | 2,515 | 2,378 |
| **UNFUNDED LIABILITY** (Note 9) | (19,987) | (19,433) |
| | $ 18,979 | $ 18,658 |

Approved on behalf of the Board of Directors:

Bob Christie
Chair

Gadi Mayman
Vice-Chair

*See accompanying notes to financial statements.*

# Ontario Electricity Financial Corporation

## Consolidated Statement of Revenue, Expense and Unfunded Liability

**for the Year Ended March 31, 2000**

**($ Millions)**

| | Year Ended March 31 2000 |
|---|---|
| **REVENUE** | |
| Proxy debt retirement charge | $ 172 |
| Payments-in-lieu of tax | 889 |
| Interest | 1,118 |
| Power sales (Note 8) | 741 |
| Electricity sector dedicated income (Note 5) | 383 |
| Other | 27 |
| Total Revenue | 3,330 |
| **EXPENSE** | |
| Interest - short-term debt | 158 |
| - long-term debt | 2,490 |
| Interest on nuclear risk funding | 137 |
| Amortization of deferred debt costs | 180 |
| Power purchases (Note 8) | 744 |
| Debt guarantee fee | 156 |
| Operating | 19 |
| Total Expense | 3,884 |
| Excess of expense over revenue | 554 |
| Unfunded Liability, April 1, 1999 | 19,433 |
| Unfunded Liability, March 31, 2000 | $ 19,987 |

*See accompanying notes to financial statements.*

# Ontario Electricity Financial Corporation

## Consolidated Statement of Cash Flows

**for the Year Ended March 31, 2000**

**($ Millions)**

| | Year Ended March 31 2000 |
|---|---|
| **CASH FLOWS USED IN OPERATING ACTIVITIES** | |
| Excess of expense over revenue | $ 554 |
| Adjustments for: | |
| Amortization of deferred debt costs | (180) |
| Interest on nuclear risk funding | (137) |
| Electricity sector dedicated income | 383 |
| Net change in balance sheet accounts | 249 |
| Net cash requirement in operations | 869 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | |
| Long-term debt issues | 1,827 |
| Net short-term debt issued | 695 |
| | 2,522 |
| Less long-term debt retired | 1,670 |
| Net cash provided from financing activities | 852 |
| Decrease in cash and temporory investments | 17 |
| Cash and temporary investments, beginning of year | 19 |
| Cash and temporary investments, end of year | $ 2 |

*See accompanying notes to financial statements.*

# Notes to Financial Statements

## 1. Restructuring of the Ontario Electricity Industry

Effective April 1, 1999, pursuant to the *Electricity Act, 1998,* Ontario Hydro was continued as a corporation without share capital under the name Ontario Electricity Financial Corporation (OEFC). OEFC is a corporation established under the laws of Ontario. It is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the Income Tax Act of Canada. OEFC is a Crown agency created to manage the debt and administer the assets, liabilities, rights and obligations of Ontario Hydro not transferred to other successor entities. These other successor entities include:

- Ontario Power Generation Inc. (OPG), an electricity generation company;
- Hydro One Inc. (HOI) (formerly Ontario Hydro Services Company Inc.), a regulated electricity transmission and distribution business that operates certain energy service businesses in an unregulated, competitive environment;
- The Independent Electricity Market Operator (IMO), the regulated centralized independent system coordinator responsible for directing system operations and operating the electricity market; and
- The Electrical Safety Authority (ESA), which performs a regulatory function related to electrical inspections.

On April 1, 1999, the respective business units, including assets, liabilities, employees, rights and obligations of the former Ontario Hydro were transferred to OPG and HOI (and their subsidiaries) and the IMO for $8.5 billion, $8.6 billion and $78 million respectively in exchange for debt payable to OEFC. On the same day, the Province exchanged equity of $5,126 million and $3,759 million in OPG and HOI respectively for debt payable to OEFC.

OEFC's debt, liabilities and associated financing costs will be repaid from interest on notes receivable from the Province and successor entities, and, as provided under the *Energy Competition Act, 1998*, from dedicated electricity revenues in the form of payments-in-lieu (PILs) of corporate income, capital and property taxes made by the successor entities. Any residual debt will be serviced through a Debt Retirement Charge (DRC). OEFC is a party to a revenue-allocation agreement among successor entities and is entitled to the residual amount in the revenue pool after costs of OPG, HOI and the IMO are paid. This amount is reflected as a proxy DRC.

OEFC is the administrator of the Ontario Electricity Financial Corporation Pension Plan and Fund. It is responsible for negotiating an agreement with each of the successor corporations for the division and transfer of the assets and liabilities of the OEFC pension plan to the pension plans of the successor corporations. The Ontario Electricity Pension Services Corporation, (OEPSC), a wholly owned subsidiary of OEFC, acts as agent for OEFC to carry out the required administrative, investment and other responsibilities of the OEFC Pension Plan and Fund. Costs associated with the administration of the OEFC Pension Plan and Fund amounting to approximately $17 million in calendar 1999 are charged to and payable by the pension fund.

## 2. Summary of Significant Accounting Policies

**Basis of Accounting**
These financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as recommended in the *Handbook* of the Canadian Institute of Chartered Accountants.

**Measurement Uncertainty**
Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurement uncertainty in these financial statements exists in the estimated liability for power purchase agreements (see Note 8 for additional details). In addition, the amount of the nuclear risk funding liability is dependent on an agreement currently under negotiation between the Province and OPG. Estimates are based on the best information available at the time of preparation of the financial statements and will be adjusted annually to reflect new information as it becomes available.

**Consolidation**
These financial statements include the accounts of OEFC's wholly owned subsidiary, Ontario Electricity Pension Services Corporation.

**Deferred Debt Costs**
Deferred debt costs includes the unamortized amounts related to unrealized foreign exchange gains or losses resulting from the translation of long-term debt issued in foreign currencies, discounts or premiums arising from the issuance of debt or the acquisition of debt prior to maturity and payments or receipts related to foreign currency hedges and swaption contracts.

**Revenue Recognition**
Revenues are recognized in the period in which they are earned. Amounts received prior to being earned are reflected as deferred revenues.

**Foreign Currency Translation**
Debt is comprised of short-, medium- and long-term bonds, notes and debentures. Debt denominated in foreign currencies which has been hedged is recorded at the Canadian dollar equivalent using the rates of exchange established by the terms of the hedge agreements. Other foreign currency debt, liabilities and assets are translated to Canadian dollars at period-end rates of exchange and any exchange gains or losses are deferred and amortized over the remaining term to maturity.

## 3. Economic Dependence

OEFC does not have its own credit rating and is, therefore, dependent on the Province to borrow and on-lend the funds required to refinance maturing debt and to cover any cash shortfalls in the Corporation. It is also dependent on the long-term plan to defease the unfunded liability described in Note 9. Based on the Province's support in refinancing maturing debt and the long-term plan, OEFC is considered a going concern.

## 4. Cash and Temporary Investments

Cash and temporary investments includes cash on deposit and short-term investments with maturities of less than three months. They are recorded at cost, which approximates current market value.

## 5. Electricity Sector Dedicated Income

The Province has committed to dedicate the combined net income of OPG and HOI in excess of the Province's cost of its investment in its electricity subsidiaries to OEFC. To March 31, 2000, OPG and HOI earned an aggregate amount of $903 million, $383 million in excess of the Province's $520 million interest cost of the equity investments in those companies. The $383 million amount has been reflected as income in OEFC and as a receivable from the Province.

## 6. Notes and Loans Receivable

($ millions)

| | Interest rate | Interest payable | Amount | Maturity date |
|---|---|---|---|---|
| Province of Ontario | 5.85 | Monthly | $ 8,885 | 2039 - 2041 |
| OPG | 5.3 to 6.65 | Semi-annually | 3,400 | 2001 - 2011 |
| HOI | 5.4 to 14.3 | Semi-annually | 4,845 | 2000 - 2007 |
| IMO | 7.90 | Semi-annually | 78 | 2009 |
| | | | 17,208 | |
| Less: current portion of notes receivable | | | 1,533 | |
| | | | 15,675 | |
| Loans receivable from non-utility generators (NUGs) (See Note 8) | | | 219 | |
| | | | $ 15,894 | |

OEFC has agreed with OPG, HOI and IMO not to sell notes owing from these successor entities without their prior approval.

## 7. Debt

Debt at March 31, 2000 is set out below by maturity and by original currency of issue.

| ($ millions) Currency | Canadian Dollar | U.S. Dollar | Swiss Franc | Japanese Yen | Total |
|---|---|---|---|---|---|
| Maturing Before | | | | | |
| March 31, 2001 | 4,785 | 737 | 150 | — | 5,672 |
| March 31, 2002 | 2,000 | 708 | — | — | 2,708 |
| March 31, 2003 | 2,848 | — | — | — | 2,848 |
| March 31, 2004 | 1,748 | — | — | 65 | 1,813 |
| March 31, 2005 | 2,000 | — | — | — | 2,000 |
| 1-5 years | 13,381 | 1,445 | 150 | 65 | 15,041 |
| 6-10 years | 5,699 | 1,088 | — | — | 6,787 |
| 11-15 years | 1,786 | 1,090 | — | — | 2,876 |
| 16-20 years | 500 | — | — | — | 500 |
| 21-25 years | 3,133 | — | — | — | 3,133 |
| 26-50 years | 3,001 | — | — | — | 3,001 |
| Total | 27,500 | 3,623 | 150 | 65 | 31,338 |

The effective rate of interest on the debt portfolio is 8.29% before considering the effect of derivative instruments used to manage interest rate risk. Bonds and notes payable are either held, or guaranteed as to principal and interest, by the Province as set out below:

| | March 31, 2000 | | | April 1, 1999 | | |
|---|---|---|---|---|---|---|
| ($ millions) | Held by the Province | Guaranteed by the Province | Total | Held by the Province | Guaranteed by the Province | Total |
| Short-term debt | 3,446 | — | 3,446 | — | 2,751 | 2,751 |
| Current portion of long-term debt | 500 | 1,726 | 2,226 | | 1,569 | 1,569 |
| Long-term debt | 5,701 | 19,965 | 25,666 | 4,248 | 21,918 | 26,166 |
| | $9,647 | $21,691 | $31,338 | $4,248 | $26,238 | $30,486 |

Fair value of debt issued approximates amounts at which debt instruments could be exchanged in a current transaction between willing parties. In valuing OEFC's debt, fair value is estimated using discounted cash flows and other valuation techniques and is compared to public market quotations where available. These estimates are affected by the assumptions made concerning discount rates and the amount and timing of future cash flows.

The estimated fair value of OEFC debt at March 31, 2000 is $35.4 billion (April 1, 1999 - $34.4 billion). This is higher than the book value of $31.3 billion (April 1, 1999 - $30.5 billion) because current interest rates are generally lower than the interest rates at which the debt was issued and because of exchange rate movements. The fair value of debt does not reflect the effect of related derivative contracts.

## 8. Long-Term Liabilities

**Power purchase contracts** and related loan agreements were entered into by Ontario Hydro with non-utility generators (NUGs) located in Ontario. These contracts, expiring on various dates to 2048, provide for the purchase of power at prices that are expected to be in excess of the market price. This liability has been valued at $4,286 million on a discounted cash-flow basis. As the continued Ontario Hydro, OEFC is the counterparty to these contracts. Currently, the power purchased from NUGs is resold at cost to the power grid managed by OPG. However, after open access, this power will be sold at market prices which may be greater or less than cost.

During the year, OEFC purchased power in the amount of $741 million and sold this power to the power grid for the same amount. Hydro One manages the NUG power purchase contracts and the related loans on behalf of OEFC for an annual fee of $3 million, which cost is included in the power purchases expense item of $744 million. Loans to NUGs increased during the year by $21 million to $219 million at March 31, 2000.

**Nuclear risk funding** - OEFC as the continued Ontario Hydro received a liability in the amount of $2,378 million representing nuclear waste management and asset removal liabilities that were incurred prior to April 1, 1999. The interest liability has been accrued at an estimated 5.75 per cent to a total value of $2,515 million as at March 31, 2000. The interest rate is still under negotiation with the Province and is subject to change. The impact of the finalization of the interest rate for the fiscal year is not expected to result in a material difference to the liability balance.

## 9. Unfunded Liability

The opening unfunded liability of $19.4 billion is composed of $ 38.1 billion in liabilities assumed from old Ontario Hydro less the value of assets transferred to OEFC at April 1, 1999 including $17.4 billion in notes and loans receivable and $1.3 billion in other assets. Pursuant to the *Electricity Act, 1998* and consistent with the principles of electricity restructuring, the government has a long-term plan in place to retire OEFC's liabilities, from within the electricity industry. The Plan includes cash flows from the following sources:

**Notes receivable** from the Province of $8.9 billion, OPG of $3.4 billion, HOI of $4.8 billion and IMO of $0.1 billion for a total of $17.2 billion as a result of the transfer of assets to successor companies,

**Payments-in-lieu** of corporate income, property and capital taxes made by OPG, HOI and municipal electric utilities,

A **Debt Retirement Charge** to be paid by ratepayers based on the consumption of electricity, and

**Electricity Sector Dedicated Income** - Consistent with the Government's commitment to keep electricity income in the electricity sector, the combined net income of OPG and HOI in excess of the Province's cost of its investment in its electricity subsidiaries will be set aside for the retirement of OEFC's debt.

The long-term plan supports estimates that OEFC's obligations will be defeased in a reasonable time.

## 10. Risk Management and Derivative Financial Instruments

OEFC employs prudent risk management strategies and operates within strict risk exposure limits to ensure exposure to risk is well managed. A variety of strategies are used, including the use of derivative financial instruments ("derivatives").

Derivatives are financial contracts, the value of which is derived from underlying assets. OEFC uses derivatives for the purpose of hedging and to minimize interest costs. Hedges are created primarily through swaps, which are legal arrangements under which OEFC agrees with another party to exchange cash flows based upon one or more notional amounts during a specified period. This allows OEFC to offset its existing obligations and thereby effectively convert them into obligations with more desirable characteristics. Other derivative instruments used by OEFC include forward foreign exchange contracts, forward rate agreements, futures and options.

Foreign exchange or currency risk is the risk of debt servicing costs and principal payments varying due to fluctuations in foreign exchange rates. To minimize currency risk, OEFC uses derivative contracts to convert foreign currency cash flows into Canadian dollar denominated cash flows. The current policy allows unhedged foreign currency cash flows to reach a maximum of 20 per cent of total debt. At year end, 8.0 per cent of this debt was unhedged, with most of the currency exposure to US dollars.

Interest rate risk is the risk of debt servicing costs varying due to changes in interest rates. OEFC reduces its exposure to rate changes by entering into derivative contracts that convert floating interest payments to fixed interest payments. The current policy allows unhedged floating rate debt, net of liquid reserves, to reach a maximum of 20 per cent of total debt. At year end, OEFC's floating rate debt as a percentage of total debt was 7.6 per cent.

The table below presents a maturity schedule of OEFC's derivatives, by type, outstanding at March 31, 2000, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts and are not indicative of credit or market risk. Notional amounts are not representative of actual cash flows.

**Derivative Portfolio Notional Value**
**($ millions)**
**As at March 31, 2000**

| Maturity in Fiscal Year | 2001 | 2002 | 2003 | 2004 | 2005 | 6-10 Years | Over 10 Years | Total |
|---|---|---|---|---|---|---|---|---|
| Cross-currency swaps | 150 | 284 | - | 593 | - | 280 | - | 1,307 |
| Interest rate swaps | 553 | 797 | 448 | 1,814 | 157 | 1,047 | 1,363 | 6,179 |
| Forward foreign exchange contracts | 692 | 459 | - | - | - | - | - | 1,151 |
| Options | 872 | 203 | - | - | - | - | - | 1,075 |
| Forward rate agreements | 370 | - | - | - | - | - | - | 370 |
| Total | $ 2,637 | 1,743 | 448 | 2,407 | 157 | 1,327 | 1,363 | 10,082 |

Entering into derivatives contracts results in credit risk, which is the risk of a counterparty defaulting on contractual derivative obligations in which OEFC has an unrealized gain. The table below presents the credit risk associated with the derivative financial instrument portfolio, measured through the replacement value of derivative contracts, at March 31, 2000.

**Credit Risk Exposure**
**($ millions)**
**As at March 31, 2000**

| | | |
|---|---|---|
| Interest rate contracts: | Swaps | $ 2,409 |
| Foreign exchange contracts: | Swaps | 1,289 |
| | Other[1] | 1,152 |
| Gross credit risk exposure | | 4,850 |
| Less: Netting agreements[2] | | (5,019) |
| Net credit risk exposure | | $ (169) |

Note:

[1] Other includes credit exposure on options, futures, forward rate agreements and forward foreign exchange agreements

[2] Contracts do not have coterminous settlement dates. Netting agreements use generally accepted forms and terms developed by the International Swaps and Derivatives Association (ISDA). Based on ISDA definitions, total exposure to counterparties with positive exposure was $67 million (meaning that counterparties owed OEFC) and total exposure to counterparties with negative exposure was $236 million (meaning that OEFC owed counterparties) for a total net credit exposure to ($169) million on March 31, 2000.

OEFC manages its credit risk exposure through daily monitoring compliance with credit limits and by dealing with counterparties with good credit ratings of A- or higher. Counterparties for money market and other short-term transactions must have at least an R1-mid rating by Dominion Bond Rating Service or an A-1 or P-1 rating by Standard and Poor's or Moody's respectively.

OEFC also limits its credit risk exposure on derivatives by entering into contractual netting agreements with virtually all of its counterparties, which enables it to settle derivative contracts on a net basis in the event of a counterparty default. The gross credit risk exposure represents the amount of loss that OEFC would suffer if every counterparty to which OEFC was exposed were to default at the same time and no netting of negative exposures was allowed. The net credit risk exposure includes the mitigating impact of these netting agreements.

## 11. Guarantees

Subject to a $10 million and $20 million deductible respectively, OEFC has agreed to indemnify HOI and OPG in respect of any adverse claim to title to any asset, right or thing transferred or intended to be transferred to the companies at April 1, 1999, any failure of the transfer order to transfer such assets, rights or things and with respect to payment to or from or other dealing with any equity account of Ontario Hydro, including certain related litigation. The Province of Ontario has guaranteed any liability arising from these indemnifications.

In connection with the transfer of assets at April 1, 1999, OEFC has agreed to provide certain levels of working capital and total assets to OPG and HOI respectively. In aggregate, the amount of these adjustments will not be more than $374 million. However, the exact amount of the adjustments is the subject of ongoing discussions between the parties, the outcome of which is not currently known.

OEFC is contingently liable under guarantees given to third parties that have provided long-term financing to certain independent power producers in connection with the power purchase agreements described in Note 8. These guarantees total approximately $146 million at March 31, 2000 ($157 million at April 1, 1999).

# Other Government Organizations

## AGRICORP

## *MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING*

The accompanying financial statements and the financial information in the annual report have been prepared by management. The financial statements have been prepared in accordance with generally accepted accounting principles. Management is responsible for the accuracy, integrity and objectivity of the information contained in the financial statements. Financial information contained elsewhere in the annual report is consistent with that contained in the financial statements.

The financial statements include some amounts, such as provision for unsettled indemnities that are necessarily based on management's best estimates and have been made using careful judgement.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Finance and Audit Committee of the Board, which is comprised of Directors who are not employees of the Corporation. The Finance and Audit Committee meets regularly to oversee the financial activities of the Agency and annually reviews the financial statements.

The financial statements have been examined independently by the Office of the Provincial Auditor on behalf of the Legislature and the Board of Directors. The Auditor's Report outlines the scope of their examination and expresses their opinion on the financial statements of the company.

Brad Caron.

Norris Hoag
Interim Chief Executive Officer

J. Bradley Caron
Chief Financial Officer

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

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(416) 327-2381 Fax: (416) 327-9862

***Auditor's Report***

To AgriCorp
and to the Minister of Agriculture, Food and Rural Affairs

I have audited the balance sheet of AgriCorp as at March 31, 2000 and the statements of operations and fund balances, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Toronto, Ontario
May 31. 2000

J.R. McCarter, CA
Assistant Provincial Auditor (Acting)

## AGRICORP

**Balance Sheet**
**As at March 31, 2000**

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| **ASSETS** | | |
| Cash | 122 | 274 |
| Accounts receivable (Note 5) | 11,103 | 7,657 |
| Investments (Note 6) | 354,686 | 296,136 |
| Due from the Minister of Finance (Note 7) | 237,337 | 348,502 |
| Capital assets (Note 8) | 752 | 987 |
| | 604,000 | 653,556 |
| **LIABILITIES AND FUND BALANCES** | | |
| **Liabilities** | | |
| Unearned premiums and revenue (Note 9) | 9,836 | 12,876 |
| Provision for unsettled indemnities (Note 2) | 65,300 | 61,376 |
| Accounts payable and accrued liabilities (Note 18) | 31,827 | 14,963 |
| | 106,963 | 89,215 |
| **Fund Balances** (Note 1) | | |
| General Fund | 1,435 | 1,527 |
| Ontario Crop Insurance Fund | 322,646 | 274,752 |
| Market Revenue Program | 172,956 | 288,062 |
| | 497,037 | 564,341 |
| | 604,000 | 653,556 |

See accompanying notes to financial statements.

On behalf of the Board:

Chair

Chief Executive Officer

**AGRICORP**

## Statement of Operations and Fund Balance – General Fund
For the Year Ended March 31, 2000

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| **Revenue** | | |
| Sales, consulting and other services | 1,070 | 1,022 |
| Interest income | (144) | 108 |
| Operating funding (Note 12) | 15,472 | 13,958 |
| | 16,398 | 15,088 |
| **Expenses** | | |
| Selling, general and administrative | 15,874 | 14,470 |
| Depreciation | 616 | 618 |
| | 16,490 | 15,088 |
| **Excess (deficiency) of revenue over expenses** | (92) | — |
| **Fund balance, beginning of year** | 1,527 | 1,527 |
| **Fund balance, end of year** | 1,435 | 1,527 |

See accompanying notes to financial statements.

## AGRICORP

### Statement of Operations and Fund Balance – Ontario Crop Insurance Fund
### For the Year Ended March 31, 2000

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| **Revenue** | | |
| Premiums from insured producers | 35,447 | 40,429 |
| Premium funding (Note 4) | 35,447 | 40,429 |
| Interest and investment income | 15,286 | 14,569 |
| | 86,180 | 95,427 |
| **Expenses** | | |
| Indemnities (Note 10) | 32,415 | 35,415 |
| Reinsurance (Note 16) | 6,149 | 8,050 |
| Bad debt expense | (278) | 96 |
| | 38,286 | 43,561 |
| **Excess of revenue over expenses** | 47,894 | 51,866 |
| **Fund balance, beginning of year** | 274,752 | 222,886 |
| **Fund balance, end of year** | 322,646 | 274,752 |

See accompanying notes to financial statements.

## AGRICORP

## Statement of Operations and Fund Balance – Market Revenue Program
For the Year Ended March 31, 2000

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| **Revenue** | | |
| Premium funding (Note 4) | 11,895 | 18,606 |
| Interest income | 15,035 | 15,879 |
| | 26,930 | 34,485 |
| **Expenses** | | |
| Indemnities (Note 10) | 142,125 | 61,927 |
| Bad debt expense (recoveries) | (89) | (56) |
| | 142,036 | 61,871 |
| **Excess (deficiency) of revenue over expenses** | (115,106) | (27,386) |
| **Fund balance, beginning of year** | 288,062 | 315,448 |
| **Fund balance, end of year** | 172,956 | 288,062 |

See accompanying notes to financial statements.

## AGRICORP

### Cash Flow Statement
### For the Year Ended March 31, 2000

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Excess (deficiency) of revenue over expenses | | |
| - General Fund | (92) | — |
| - Ontario Crop Insurance Fund | 47,894 | 51,866 |
| - Market Revenue Program | (115,106) | (27,386) |
| Adjustments to reconcile net income to funds provided by operating activities | | |
| - Depreciation | 616 | 618 |
| - Net change in working capital | 125,467 | 40,779 |
| Cash flows from operating activities | 58,779 | 65,877 |
| **Cash Flows from Investing Activities** | | |
| Purchase of capital assets | (381) | (649) |
| Increase in investments | (58,550) | (67,619) |
| Cash flows used in investing activities | (58,931) | (68,268) |
| **Net decrease in cash** | (152) | (2,391) |
| **Cash at beginning of year** | 274 | 2,665 |
| **Cash at end of year** | 122 | 274 |

See accompanying notes to financial statements.

**AGRICORP**

**Notes to Financial Statements**
**March 31, 2000**

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## 1. NATURE OF OPERATIONS

The *AgriCorp Act, 1996* established AgriCorp as a new Crown agency effective January 1, 1997. The Corporation was established without share capital. Its mandate is to design and deliver agricultural safety net plans and other food products and services to the farm, food and rural sectors of Ontario. Current safety net programs include the Crop Insurance and the Market Revenue Programs.

The Ontario Crop Insurance Fund was established in 1966 and currently operates pursuant to the *Crop Insurance Act (Ontario), 1996*. The program provides growers with protection on all major crops grown in Ontario, against yield reduction caused by natural perils.

The Market Revenue program was established pursuant to the Interim Gross Revenue Insurance Plan (GRIP) agreement established by the Government of Canada with the provinces and commenced operations on April 1, 1991. The Program protects farmers against reduced income caused by low market prices of certain designated crops.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Acccunting

The Corporation's financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants.

### (b) Capital Assets

Capital assets are stated at cost less accumulated depreciation. Depreciation is provided using the straight line method over the estimated useful life of the assets as listed below.

| | |
|---|---|
| Furniture and fixtures | 4 years |
| Vehicles | 4 years |
| Machinery and equipment | 4 years |
| Computer hardware | 3 years |
| Computer software | 2 years |
| Leasehold improvements | remaining life of the lease |

### (c) Pension Plan

Full-time employees participate in a mandatory contributory defined benefit pension plan administered by a third-party administrator. The Corporation matches employees' contributions. Pension plan assets are valued using current fair values and adjustments are amortized on a straight-line basis over the expected average remaining service life of the employee group.

AGRICORP

Notes to Financial Statements
March 31, 2000

---

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Investments

Interest income, gains and losses on disposal, amortization of premiums and discounts and write-downs to market value are reported in investment income. Market Revenue, Crop Insurance and General Fund cashflows and investments are segregated avoiding the need for allocation of investment income. Short-term investments are acquired primarily for the purpose of liquidity and are intended to be held for less than one year. Short-term investments are carried at cost which approximates market value. Long-term investments are recorded at cost net of accumulated premiums and discounts amortized over the term to maturity.

### (e) Provision for Unsettled Indemnities

Provision for unsettled indemnities represents management's best estimates of amounts to be paid. Market Revenue Program payments are based on a formula which cannot be completed until the end of the 2000 calendar year. Certain Crop Insurance claims remained unsettled at year-end and were either quantified based on settlement amounts after year-end or management estimates were made.

### (f) Revenue Recognition

Premiums received in the period are deferred for crops which will be harvested subsequent to the end of the fiscal year.

## 3. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to the current year's presentation.

## 4. CANADA-ONTARIO COST SHARING AGREEMENTS

### (a) Crop Insurance

The current Canada-Ontario Crop Insurance Agreement came into effect April 1, 1997 and has no explicit expiry date. It can be terminated by either party with advance notice of two complete fiscal years. Under the terms of the Agreement, the Province and the Federal government share equally the cost of 50% of the premium with the producers paying the remaining 50%. The two levels of government share equally the selling, general and administrative expenses.

### (b) Market Revenue

An agreement to extend or replace the Canada-Ontario Market Revenue Agreement had not been signed at the date of these financial statements. These financial statements include revenue and expenditure accruals based on the assumptions that a retroactive Agreement for the 1999 crop year will be concluded. The Province and the Federal Government have, in the past, shared equally the cost of the selling, general and administrative expenses.

**AGRICORP**

**Notes to Financial Statements**
**March 31, 2000**

## 5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| Government funding | 9,425 | 6,211 |
| Accrued interest | 35 | 54 |
| Producer premiums, net | 1,355 | 1,125 |
| Trade | 288 | 267 |
| | 11,103 | 7,657 |

## 6. INVESTMENTS

Legislation restricts the Corporation's investments to highly liquid, high grade money market instruments such as federal and provincial bonds, deposit notes issued by domestic financial institutions and other securities approved by the Minister of Finance.

### (a) Portfolio Profile

Investments are as follows:

| | 2000 | | 1999 | |
|---|---|---|---|---|
| | Carrying Amount ($000's) | Fair Value ($000's) | Carrying Amount ($000's) | Fair Value ($000's) |
| **Short-term** | 122,407 | 122,377 | 129,176 | 128,931 |
| **Long-term** | | | | |
| Government of Canada | 54,823 | 53,363 | 36,817 | 36,013 |
| Province of Ontario | 32,831 | 32,091 | 30,437 | 31,226 |
| Other provincial governments | 51,229 | 48,420 | 50,494 | 50,256 |
| Provincial utilities | 47,306 | 45,270 | 33,804 | 34,360 |
| Other financial institutions | 46,090 | 43,735 | 15,408 | 15,347 |
| Total long-term | 232,279 | 222,879 | 166,960 | 167,202 |
| **Total Investments** | 354,686 | 345,256 | 296,136 | 296,133 |

### (b) Investment Risk

The coupon rates for the long-term bond portfolio ranged from 5% to 10.875% with a weighted average yield of 6.86%. Fluctuations in interest rates could have a significant impact on the market value of the bond portfolio. This could result in realized gains or losses if actual claims levels differed significantly from expected and quick liquidation of assets were required to meet obligations. At March 31, 2000, a 1% move in interest rates could impact the market value by approximately $14.1 million but bonds are generally held to maturity.

## AGRICORP

**Notes to Financial Statements**
**March 31, 2000**

### 6. INVESTMENTS (CONTINUED)

#### (c) Maturity Profile of the Investment Portfolio

| | 1999/00 ($000's) | 1998/99 ($000's) |
|---|---:|---:|
| <1 Year | 122,407 | 129,176 |
| 1-3 Years | 4,269 | 12,572 |
| 3-5 Years | 17,696 | 8,114 |
| >5 Years | 210,314 | 146,274 |
| Total | 354,686 | 296,136 |

### 7. DUE FROM THE MINISTER OF FINANCE

Pursuant to Order-in-Council 1546/91, an account has been established in the Ontario Government's Consolidated Revenue Fund to receive Market Revenue Program contributions from Canada, Ontario and prior to the 1995 crop year, insured producers. Interest is paid quarterly on the account's average daily closing value based on the average Bank of Canada treasury bill rate. This account is used to administer the Program and cannot be accessed for the general operating, financing and investing activities of AgriCorp.

### 8. CAPITAL ASSETS

| | March 31, 2000 | | | 1999 |
|---|---:|---:|---:|---:|
| | Cost ($000's) | Accumulated Amortization ($000's) | Net Book Value ($000's) | Net Book Value ($000's) |
| Computer hardware | 1,096 | 606 | 490 | 632 |
| Computer software | 812 | 700 | 112 | 243 |
| Leasehold improvements | 115 | 60 | 55 | 78 |
| Machinery and equipment | 75 | 10 | 65 | 0 |
| Vehicles | 50 | 31 | 19 | 31 |
| Furniture and fixtures | 15 | 4 | 11 | 3 |
| | 2,163 | 1,411 | 752 | 987 |

### 9. UNEARNED PREMIUMS AND REVENUE

Unearned premiums represent premiums paid in advance to the Ontario Crop Insurance Fund for winter wheat ($4.88 million), forage ($2.73 million) and other crops ($1.47 million). These crops are not harvested until after the end of the fiscal year giving rise to the deferral of premium. Unearned revenue ($0.75 million) includes operating funding related to the unamortized value of capital assets.

**AGRICORP**

**Notes to Financial Statements**
**March 31, 2000**

## 10. INDEMNITIES

The Ontario Crop Insurance Fund's operating results for the current period include the reversal of a $6,600 over-provision for unsettled indemnities as at March 31, 1999 (1998 - $437,500 under-provision for indemnities).

The Market Revenue Program's operating results for the current period includes a $14.1 million under-provision of unsettled indemnities as at March 31, 1999 (1998 - $1.7 million under-provision). In addition, the Market Revenue Program's operating results for the current period include a provision for unsettled indemnities relating to the 1999 crop year of $64.3 million (1998 - $60 million). In the absence of a new Canada-Ontario Market Revenue Agreement, AgriCorp received approval from the Province to make interim payments for the 1999 crop year.

## 11. SEGMENTED INFORMATION

| | General Fund | Crop Insurance Fund | Market Revenue Program | Total 2000 | Total 1999 |
|---|---|---|---|---|---|
| | | | ($000's) | | |
| **Assets** | | | | | |
| Cash | (149) | 271 | — | 122 | 274 |
| Accounts receivable | 2,464 | 8,550 | 89 | 11,103 | 7,657 |
| Investments | 32,247 | 322,439 | — | 354,686 | 296,136 |
| Due from the Minister of Finance | — | — | 237,337 | 237,337 | 348,502 |
| Capital assets | 752 | — | — | 752 | 987 |
| Inter-fund receivables/(payables) | (1,431) | 1,487 | (56) | — | — |
| | 33,883 | 332,747 | 237,370 | 604,000 | 653,556 |
| **Liabilities** | | | | | |
| Accounts payable and accrued liabilities | 31,696 | 47 | 84 | 31,827 | 14,963 |
| Unearned premiums and revenue | 752 | 9,084 | — | 9,836 | 12,876 |
| Provision for unsettled indemnities | — | 970 | 64,330 | 65,300 | 61,376 |
| | 32,448 | 10,101 | 64,414 | 106,963 | 89,215 |
| **Fund Balances** | 1,435 | 322,646 | 172,956 | 497,037 | 564,341 |
| | 33,883 | 332,747 | 237,370 | 604,000 | 653,556 |

## 12. OPERATING FUNDING

Canada and Ontario have agreed to share equally the costs of administering the Ontario Crop Insurance Fund and the Market Revenue Program. The Federal contribution shall not be more than the provincial share even if that amounts to less than 50% of the incurred costs. Based on a reasonable estimate of the administrative workload, these costs are allocated to the Fund and Program 95% and 5%, respectively.

**AGRICORP**

**Notes to Financial Statements**
**March 31, 2000**

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### 13. PENSION PLAN

The Corporation has a mandatory contributory defined benefit plan for its full-time employees. The plan was set up effective January 1, 1997. Based on a financial statement prepared by the plan's actuary, the present value of the accrued pension benefits and the market value of the net assets available to provide for those benefits, are as follows:

| | **2000 (\$000's)** |
|---|---|
| Accrued pension benefits | 1,504 |
| Pension fund assets | 1,612 |
| Pension fund surplus | 108 |

Over the course of the year the plan generated an experience gain of $154,000.

### 14. RELATED PARTY TRANSACTIONS

The Corporation has entered into several agreements to acquire services from the Ontario Ministry of Agriculture, Food and Rural Affairs. Under the terms of the agreements the Corporation paid the Ministry $298,700 during the year. These services, assessed at fair market value, include the utilization of postage, courier, copy, and legal services. The Corporation paid the Management Board Secretariat $868,500 for mainframe computer services. In addition, the Corporation paid the Ontario Realty Corporation $320,700 to rent their head office location.

### 15. BOARD REMUNERATION AND SALARY DISCLOSURE

Total remuneration to members of the Board of Directors was $84,500 during the year ending March 31, 2000 (1999 - $65,700).

The *Public Sector Salary Disclosure Act, 1996*, requires the Corporation to disclose employees paid an annual salary in excess of $100,000. For the 1999 calendar year, the Corporation's Chief Executive Officer, Mr. Thomas M. Schmidt, was paid a total of $140,177 plus taxable benefits of $13,599.

### 16. REINSURANCE AGREEMENT

In May 1998, a program of reinsurance was entered into with a number of insurance carriers. This program provides for the reinsuring companies to assume crop insurance losses from 150% to 300% of total premium. This will significantly spread AgriCorp's risk in the event of very adverse experience. Reinsurance costs are based on crop insurance premiums. This program will permit changes to the investment strategy designed to enhance investment yield and recover a portion of the reinsurance premium.

**AGRICORP**

**Notes to Financial Statements**
**March 31, 2000**

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## 17. LEASE COMMITMENTS

The Corporation is committed under operating leases on leased premises with future minimum rental payments due as follows:

| | ($000's) |
|---|---|
| 2001 | 186 |
| 2002 | 170 |
| 2003 | 170 |
| | 526 |

## 18. ONTARIO WHOLE FARM RELIEF PROGRAM

The Corporation entered into an agreement with the Ministry of Agriculture, Food and Rural Affairs to provide certain services for the purpose of preparing cheques under the Ontario Whole Farm Relief Program. The Ministry advanced funds to the Corporation and, as at March 31, 2000, accounts payable included $29.8 million (1999 - $11.5 million) for distribution under this Program.

**Cancer Care Ontario • Action Cancer Ontario**
*Provincial Office • Siège Provincial*
*620 University Avenue*
*Toronto, Ontario M5G 2L7*
*Tel. (416) 971-9800*
*Fax (416) 971-6888*

August 4, 2000

## MANAGEMENT REPORT

### Management's Responsibility For Financial Information

Management and the Board of Directors are responsible for the financial statements and all other information presented in this Financial Statement. The financial statements have been prepared by Management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on Management's best estimates and judgements.

Cancer Care Ontario is dedicated to the highest standards of integrity and patient care. To safeguard Cancer Care Ontario's assets, a sound and dynamic set of internal financial controls and procedures that balance benefits and costs has been established. Management has developed and maintains financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information. Internal audits are conducted to assess management systems and practices, and reports are issued to the Finance, Audit and Human Resources Committee (FAHR).

The Board of Directors through the Finance, Audit and Human Resources Committee ensures that Management fulfills its responsibilities for financial information and internal control. This committee oversees the financial activities of CCO and reviews the financial statements and the external auditors' report thereon.

The financial statements have been examined by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

For the fiscal year ending March 31, 2000, Cancer Care Ontario's Board of Directors, through the Finance, Audit and Human Resources Committee, was responsible for ensuring that management fulfilled its responsibilities for financial reporting and internal controls. The Committee meets regularly with management, the internal auditor and the Provincial Auditor to satisfy itself that each group had properly discharged its respective responsibility, and to review the financial statements before recommending approval by the Board of Directors. The Provincial Auditor had direct and full access to the Finance, Audit and Human Resources Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of Cancer Care Ontario's financial reporting and the effectiveness of the system of internal controls.

On behalf of Cancer Care Ontario Management.

Kenneth Shumak, MD, FRCPC
President and Chief Executive Officer

Naresh Khosla
Senior Vice President &
Chief Financial Officer

**Cancer Care Ontario Regions • Régions Action Cancer Ontario:** *Central East/Centre-est • Central West/Centre-ouest*
*Eastern/Est • Northeast/Nord-est • Northwest/Nord-ouest • South/Sud • Southeast/Sud-est • Southwest/Sud-ouest*

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Provincial Auditor
of Ontario

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***Auditor's Report***

To Cancer Care Ontario
and to the Minister of Health and Long-Term Care

I have audited the statement of financial position of Cancer Care Ontario as at March 31, 2000 and the statements of operations, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Cancer Care Ontario's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of Cancer Care Ontario as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Toronto, Ontario
June 2, 2000

J.R. McCarter, CA
Assistant Provincial Auditor (Acting)

# CANCER CARE ONTARIO

Statement of Financial Position
(In thousands of dollars)

March 31, 2000, with comparative figures for 1999

| | 2000 | 1999 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 1,728 | $ – |
| Short-term investments | 3,887 | 33,455 |
| Accounts receivable | 7,342 | 7,065 |
| Due from the Ministry of Health and Long Term Care | 20,739 | 8,490 |
| Other | 2,455 | 2,582 |
| | 36,151 | 51,592 |
| Long-term investments (note 2) | 61,979 | 60,847 |
| Prepaid pension surplus (note 9) | 8,014 | 2,168 |
| Capital assets (note 3) | 26,951 | 28,207 |
| Other | 628 | 798 |
| | $ 133,723 | $ 143,612 |
| **Liabilities, Deferred Contributions and Fund Balances** | | |
| Current liabilities: | | |
| Bank indebtedness | $ – | $ 26 |
| Accounts payable and accrued liabilities | 37,906 | 38,039 |
| | 37,906 | 38,065 |
| Deferred contributions: | | |
| Deferred operating grants (note 4(a)) | 17,077 | 20,550 |
| Deferred contributions related to capital assets (note 4(b)) | 10,777 | 12,445 |
| Deferred contributions related to expansion (note 4(c)) | – | 4,230 |
| | 27,854 | 37,225 |
| Fund balances: | | |
| Endowment | 2,870 | 2,962 |
| Internally and externally restricted | 26,834 | 27,821 |
| Invested in capital assets (note 6) | 16,174 | 15,762 |
| Related to pension surplus (note 9) | 8,014 | 2,168 |
| Unrestricted | 14,071 | 19,609 |
| | 67,963 | 68,322 |
| Commitments (note 10) | | |
| Contingency (note 11) | | |
| | $ 133,723 | $ 143,612 |

See accompanying notes to financial statements.

On behalf of the Board:

____________________ Director

____________________ Director

# CANCER CARE ONTARIO

Statement of Operations
(In thousands of dollars)

Year ended March 31, 2000, with comparative figures for 1999

| | Restricted | | General | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Revenue: | | | | |
| Ministry of Health and Long Term Care | $ – | $ – | $ 209,734 | $ 173,064 |
| Investment income | 889 | 1,117 | 2,034 | 4,300 |
| Donations, bequests and grants | 13,824 | 14,088 | 738 | 1,770 |
| Amortization of deferred contributions related to capital assets (note 4(b)) | 1,055 | 934 | 5,056 | 5,751 |
| Other income | – | – | 8,918 | 9,692 |
| | 15,768 | 16,139 | 226,480 | 194,577 |
| Expenses: | | | | |
| Salaries | 4,166 | 4,595 | 114,229 | 96,076 |
| Benefits | 659 | 628 | 15,645 | 11,239 |
| Pension surplus | – | – | (5,846) | – |
| Other operating (note 5) | 9,816 | 10,002 | 47,342 | 41,259 |
| Drugs | 21 | 80 | 32,296 | 21,429 |
| Medical and surgical services and supplies | 794 | 424 | 10,300 | 10,444 |
| Amortization of capital assets | 1,055 | 932 | 12,130 | 11,744 |
| | 16,511 | 16,661 | 226,096 | 192,191 |
| Excess (deficiency) of revenue over expenses | $ (743) | $ (522) | $ 384 | $ 2,386 |

See accompanying notes to financial statements.

# CANCER CARE ONTARIO

Statement of Changes in Fund Balances
(In thousands of dollars)

Year ended March 31, 2000, with comparative figures for 1999

| | | | | | | 2000 | 1999 |
|---|---|---|---|---|---|---|---|
| | | | General | | | | |
| | Endowment | Restricted | Invested in capital assets (note 6) | Related to pension surplus (note 9) | Unrestricted | Total | Total |
| Balance, beginning of year | $ 2,962 | $ 27,821 | $ 15,762 | $ 2,168 | $ 19,609 | $ 68,322 | $ 66,458 |
| Excess (deficiency) of revenue over expenses | – | (743) | (7,074) | 5,846 | 1,612 | (359) | 1,864 |
| Interfund transfers (note 7) | (92) | (244) | – | – | 336 | – | – |
| Investment in capital assets (note 6) | – | – | 7,486 | – | (7,486) | – | – |
| Balance, end of year | $ 2,870 | $ 26,834 | $ 16,174 | $ 8,014 | $ 14,071 | $ 67,963 | $ 68,322 |

See accompanying notes to financial statements.

# CANCER CARE ONTARIO

Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2000, with comparative figures for 1999

| | 2000 | 1999 |
|---|---|---|
| Cash provided by (used in): | | |
| Operations: | | |
| Excess (deficiency) of revenue over expenses | $ (359) | $ 1,864 |
| Amortization of capital assets | 13,185 | 12,676 |
| Amortization of deferred contributions related to capital assets | (6,111) | (6,685) |
| Change in non-cash operating working capital | (26,081) | 11,951 |
| | (19,366) | 19,806 |
| Investments: | | |
| Short-term investments, net | 29,568 | (33,455) |
| Long-term investments, net | (1,132) | (4,330) |
| Purchase of capital assets: | | |
| Funded by contributions for capital assets | (4,443) | (8,082) |
| Internally funded | (7,486) | (6,848) |
| Other | 170 | (798) |
| Deferred contributions related to capital assets | 4,443 | 8,082 |
| | 21,120 | (45,431) |
| Increase (decrease) in cash | 1,754 | (25,625) |
| Cash (bank indebtedness), beginning of year | (26) | 25,599 |
| Cash (bank indebtedness), end of year | $ 1,728 | $ (26) |

See accompanying notes to financial statements.

# CANCER CARE ONTARIO

Notes to Financial Statements
(In thousands of dollars)

Year ended March 31, 2000

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The government of Ontario approved the establishment of Cancer Care Ontario (the "Organization") on April 29, 1997. It will facilitate significant improvements for cancer patients, their families and the public in the outcome, quality and efficiency of cancer services. The cancer services will encompass prevention, early detection, diagnosis, treatment, supportive care, research and education. The Organization was incorporated under the name of The Ontario Cancer Treatment and Research Foundation by an Act of Legislature of the Province of Ontario in 1943 and the name of the Organization was changed on May 28, 1997 to Cancer Care Ontario. The Organization is a registered charity under the Income Tax Act.

## 1. Significant accounting policies:

The Organization's financial statements are prepared by management using generally accepted accounting principles.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and fund balances at the date of the financial statements and the reported amounts of the statement of operations and changes in fund balances during the year. Actual results could differ from those estimates.

(a) Fund accounting:

The Organization uses the Restricted Fund method of accounting for contributions.

The General Fund accounts for the Organization's Ministry of Health and Long Term Care funded programs and administrative activities. This fund reports unrestricted resources and restricted operating grants.

The Restricted Fund reports all externally and internally restricted resources. The main use of these resources is for research and education. These funds include donations and grants which either have specific restrictions placed on their use by the donor or have been received by a centre and are restricted for use by that centre.

The Endowment Fund reports contributions subject to externally imposed stipulations specifying that the resources contributed be maintained permanently.

# CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2000

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1. **Significant accounting policies (continued):**

(b) Revenue recognition:

Restricted contributions related to Ministry of Health and Long Term Care funded programs are recognized as revenue of the General Fund in the year which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate Restricted Fund in the year of receipt.

Contributions for endowment are recognized as revenue of the appropriate Endowment Fund in the year of receipt.

Restricted investment income earned on Endowment Fund resources are recognized as revenue of the Restricted Fund.

Unrestricted contributions are recognized as revenue of the General Fund in the year received.

(c) Inventory:

Drug inventory is stated at lower of cost and net realizable value, and is included in other current assets.

(d) Investments:

Short-term investments are stated at cost, which approximates market. Short-term investments are those with original terms to maturity in excess of three months but less than one year. Short-term investments with maturity of less than three months are recorded as cash. Long-term investments are recorded at cost. If the market value of investments becomes lower than cost and this decline in value is considered to be other than temporary, the investments are written down to market value.

The Organization has retroactively adopted the new recommendations of The Canadian Institute of Chartered Accountants relating to the presentation and disclosure of short-term investments in the statement of cash flows.

# CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2000

---

1. **Significant accounting policies (continued):**

(e) Capital assets:

Capital assets are recorded at cost. Contributions received for the purchase of capital assets are recorded as grants for capital assets and amortized on the same basis as the capital assets. All capital assets are amortized on a straight-line basis at 20% per annum.

Land and buildings for four lodges donated by the Canadian Cancer Society - Ontario Division are recorded at nominal value, as current value is not reasonably determinable.

(f) Contributed services:

The Organization benefits from services provided by volunteers at the regional cancer centres. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

(g) Pension costs:

The pension expense and obligation are determined using a modified unit credit methodology pro rated on services and based on management's best estimate assumptions. The pension expense for the year also includes adjustments for plan amendments, experience gains and losses and changes in assumptions which are being amortized on a straight-line basis over the expected average remaining service lives of the plan members.

2. **Long-term investments:**

The carrying value and market value of the Organization's long-term investments at March 31, 2000 are as follows:

| 2000 | Carrying value | Market value | Effective yield | Maturity |
|---|---|---|---|---|
| Treasury bills, guaranteed investment certificates and cash | $ 3,583 | $ 3,583 | 5.2% | Under 1 year |
| Bonds | 50,095 | 49,775 | 5.0% - 5.35% | 1 - 50 years |
| Equities | 8,301 | 9,887 | N/A | N/A |
| | $ 61,979 | $ 63,245 | | |

# CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2000

## 2. Long-term investments (continued):

| 1999 | Carrying value | Market value | Effective yield | Maturity |
|---|---|---|---|---|
| Treasury bills, guaranteed investment certificates and cash | $ 3,919 | $ 3,919 | 4.8% | Under 1 year |
| Bonds | 46,646 | 46,734 | 5.1% - 8.4% | 1 - 7 years |
| Equities | 10,282 | 8,669 | N/A | N/A |
| | $ 60,847 | $ 59,322 | | |

Interest rate sensitivity is the main determinant of changes in the market value of the bonds.

The Organization does not have any significant exposure from investment concentration due to the diversified nature of the portfolio investments.

## 3. Capital assets:

| | | | 2000 | 1999 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Office furniture, equipment and leasehold improvements | $ 27,839 | $ 22,837 | $ 5,002 | $ 5,716 |
| Therapeutic and other technical equipment | 101,554 | 80,908 | 20,646 | 21,351 |
| Radioactive cobalt and radium | 943 | 813 | 130 | 57 |
| Deposits on equipment | 1,173 | – | 1,173 | 1,083 |
| | $ 131,509 | $ 104,558 | $ 26,951 | $ 28,207 |

# CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2000

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## 4. Deferred contributions:

### (a) Deferred operating grants:

Deferred operating grants represent unspent resources related to Ministry of Health and Long Term Care funded programs. Unspent amounts are held for use in subsequent periods or settlement by the Ministry. Changes in the deferred operating grant balance are as follows:

| | 2000 | 1999 |
|---|---|---|
| Balance, beginning of year | $ 20,550 | $ 13,613 |
| Amounts related to subsequent periods | 6,024 | 9,555 |
| Amount recognized as revenue | (9,451) | (1,908) |
| Amount returned to Ministry of Health and Long Term Care | (46) | (710) |
| Balance, end of year | $ 17,077 | $ 20,550 |

### (b) Deferred contributions related to capital assets:

Deferred contributions for capital assets represent funds received for the purchase of capital assets. The amortization of deferred contributions related to capital assets is recorded in the statement of operations. Contributions are amortized on a straight-line basis at 20% per annum. The changes in the deferred contributions related to capital assets balance for the year are as follows:

| | 2000 | 1999 |
|---|---|---|
| Balance, beginning of year | $ 12,445 | $ 11,048 |
| Contributions related to capital assets | 4,443 | 8,082 |
| Amount amortized to revenue | (6,111) | (6,685) |
| Balance, end of year | $ 10,777 | $ 12,445 |

### (c) Deferred contributions related to expansion:

Deferred contributions related to expansion represent unspent resources related to Ministry of Health and Long Term Care capital funding. Unspent amounts are held for use in subsequent years.

# CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2000

## 5. Other operating expenses:

| | 2000 | 1999 |
|---|---|---|
| General Fund: | | |
| Equipment | $ 11,015 | $ 9,268 |
| Building | 8,677 | 9,379 |
| Patient services | 800 | 1,452 |
| Purchased services | 14,165 | 13,404 |
| Education and research programs and publications | 839 | 1,007 |
| Other | 11,846 | 6,749 |
| | 47,342 | 41,259 |
| Restricted Fund: | | |
| Research and other | 9,816 | 10,002 |
| | $ 57,158 | $ 51,261 |

## 6. Invested in capital assets:

Invested in capital assets is calculated as follows:

| | 2000 | 1999 |
|---|---|---|
| Capital assets | $ 26,951 | $ 28,207 |
| Deferred capital contributions | (10,777) | (12,445) |
| | $ 16,174 | $ 15,762 |

Change in net assets invested in capital assets is calculated as follows:

| | 2000 | 1999 |
|---|---|---|
| Excess of expenses over revenue: | | |
| Amortization of deferred contributions related to capital assets | $ 6,111 | $ 6,685 |
| Amortization of capital assets | (13,185) | (12,676) |
| | $ (7,074) | $ (5,991) |
| Net change in invested capital assets: | | |
| Purchase of capital assets | $ 11,929 | $ 14,930 |
| Deferred contributions related to capital assets | (4,443) | (8,082) |
| | $ 7,486 | $ 6,848 |

# CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2000

## 7. Interfund transfers:

| | |
|---|---|
| Transfer to the Restricted Fund from the Endowment Fund at donor's request | $ 92 |
| Transfer to the General Fund from the Restricted Fund | 336 |

## 8. Investment income:

The amount of net investment income earned on the Endowment Fund resources in the amount of $73 (1999 - $177) is included in the Restricted Fund.

## 9. Pension costs and prepaid pension surplus:

The Organization has a defined contribution pension plan with a minimum defined benefit guarantee. As at March 31, 2000, the market value of pension assets was approximately $187,190 and the accrued value of the pension liabilities was approximately $126,562. As at March 31, 2000, there was no unfunded pension obligation.

The actuarial present value of the accrued pension benefits is measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action.

The pension expense for the year ended March 31, 2000 is $5[illegible]7. The excess of funding contributions over the pension expense for the year of $5,846 is included in the prepaid pension surplus of $8,014 on the balance sheet as at March 31, 2000.

# CANCER CARE ONTARIO

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2000

## 10. Commitments:

The Organization leases computer and office equipment. Under the terms of the leases, future payments are estimated as follows:

| | |
|---|---|
| 2001 | $ 2,514 |
| 2002 | 1,277 |
| 2003 | 459 |
| 2004 | 110 |
| 2005 | 54 |
| Thereafter | 68 |
| | $ 4,482 |

## 11. Contingency:

In July 1989, the Organization became a member of the Healthcare Insurance Reciprocal of Canada ("HIROC"), which is established by hospitals and other organizations to self-insure. If the aggregate premiums paid are not sufficient to cover claims, the Organization will be required to provide additional funding on a participatory basis.

## 12. Comparative figures:

Certain of the 1999 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2000.

CANCER CARE ONTARIO

RECORD OF EMPLOYEES' 1999 SALARIES AND BENEFITS

| Sector | Employer | Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|---|---|
| Agencies | Cancer Care Ontario | Abu-Zahra | Hakam | Head, Systemic Therapy | $128,881.45 | $516.32 |
| Agencies | Cancer Care Ontario | Ackerman | Ida | Radiation Oncologist | $115,443.04 | $407.48 |
| Agencies | Cancer Care Ontario | Agboola | Olusegun | Radiation Oncologist | $115,356.49 | $440.90 |
| Agencies | Cancer Care Ontario | Aitken | Susan | Medical Oncologist | $145,560.14 | $354.84 |
| Agencies | Cancer Care Ontario | Alam | Zeenat | Medical Oncologist | $131,093.38 | $526.26 |
| Agencies | Cancer Care Ontario | Anthes | Margaret | Radiation Oncologist | $117,833.30 | $347.16 |
| Agencies | Cancer Care Ontario | Aref | Ibraham | Radiation Oncologist | $115,356.49 | $440.90 |
| Agencies | Cancer Care Ontario | Arnold | Andrew | Head, Medical Oncology | $130,816.89 | $474.52 |
| Agencies | Cancer Care Ontario | Assuras | John | Clinical Assistant | $113,025.36 | $296.86 |
| Agencies | Cancer Care Ontario | Balogh | Judith | Radiation Oncologist | $115,443.04 | $0.00 |
| Agencies | Cancer Care Ontario | Barnett | Robin | Supervisor, Planning & Delivery Support | $102,522.25 | $268.52 |
| Agencies | Cancer Care Ontario | Battista | Jerry | Director, Physics Research and Education | $116,627.42 | $325.00 |
| Agencies | Cancer Care Ontario | Bauman | Glenn | Head, Radiation Oncology/Dir, Radiation Treatment Prgm | $116,482.96 | $406.60 |
| Agencies | Cancer Care Ontario | Benger | Ann | Medical Oncologist | $115,377.81 | $441.02 |
| Agencies | Cancer Care Ontario | Bissett | Randall | CEO/Radiation Oncologist | $208,855.24 | $888.74 |
| Agencies | Cancer Care Ontario | Bowen | Julie | Radiation Oncologist | $102,426.94 | $588.28 |
| Agencies | Cancer Care Ontario | Bramwell | Vivien | Head, Medical Oncology/Director, Systemic Treatment Prgm | $130,876.44 | $440.44 |
| Agencies | Cancer Care Ontario | Brisbane | Darlene | Director, Information Services | $176,077.47 | $409.90 |
| Agencies | Cancer Care Ontario | Browman | George | CEO/Medical Oncologist | $106,044.69 | $243.44 |
| Agencies | Cancer Care Ontario | Brundage | Michael | Radiation Oncologist | $115,367.05 | $441.02 |
| Agencies | Cancer Care Ontario | Brunskill | Ian | Senior Vice President, Planning & Administration | $106,919.85 | $0.00 |
| Agencies | Cancer Care Ontario | Cairncross | J. Gregory | CEO/Medical Oncologist | $145,946.96 | $420.41 |
| Agencies | Cancer Care Ontario | Cano | Pablo | Medical Oncologist | $148,779.88 | $744.08 |
| Agencies | Cancer Care Ontario | Chang | Jose | Director, Oncology Program | $106,155.04 | $0.00 |
| Agencies | Cancer Care Ontario | Chart | Pamela | Clinical Assistant | $103,941.47 | $287.30 |
| Agencies | Cancer Care Ontario | Choo | Richard C. | Radiation Oncologist | $115,443.04 | $407.48 |
| Agencies | Cancer Care Ontario | Chouinard | Edmond | Medical Oncologist | $115,377.81 | $441.02 |
| Agencies | Cancer Care Ontario | Corbett | Thomas | Radiation Oncologist | $115,377.81 | $441.02 |
| Agencies | Cancer Care Ontario | Covens | Allen | Head, Gynecology | $122,450.04 | $421.54 |
| Agencies | Cancer Care Ontario | Cowan | Donald H. | Executive Vice President, Provincial Programs | $215,034.21 | $489.68 |
| Agencies | Cancer Care Ontario | Craigie | Pamela | Clinical Assistant | $101,018.99 | $293.06 |
| Agencies | Cancer Care Ontario | Cripps | Christine M. | Medical Oncologist | $115,356.49 | $440.90 |
| Agencies | Cancer Care Ontario | Curtis | John | Medical Oncologist | $112,237.40 | $483.16 |

## CANCER CARE ONTARIO

## RECORD OF EMPLOYEES' 1999 SALARIES AND BENEFITS

| Sector | Employer | Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|---|---|
| Agencies | Cancer Care Ontario | Danjoux | Cyril | Radiation Oncologist | $115,443.04 | $407.48 |
| Agencies | Cancer Care Ontario | Dar | Abdul | Radiation Oncologist | $115,429.09 | $407.48 |
| Agencies | Cancer Care Ontario | Davey | Phillip | Radiation Oncologist | $115,443.04 | $407.48 |
| Agencies | Cancer Care Ontario | de Metz | Catherine | Head, Radiation Oncology | $122,865.47 | $514.40 |
| Agencies | Cancer Care Ontario | Dent | Susan | Medical Oncologist | $105,162.56 | $408.00 |
| Agencies | Cancer Care Ontario | Dhaliwal | Harbhajan | CEO/Medical Oncologist | $203,856.88 | $475.54 |
| Agencies | Cancer Care Ontario | Dixon | Peter | Deputy Head, Radiation Oncology | $121,195.95 | $443.50 |
| Agencies | Cancer Care Ontario | Doherty | Mary | Radiation Oncologist | $115,443.04 | $407.48 |
| Agencies | Cancer Care Ontario | Dunscombe | Peter | Chief Physicist | $138,484.35 | $322.97 |
| Agencies | Cancer Care Ontario | Eapen | Libni | Radiation Oncologist | $115,356.50 | $440.90 |
| Agencies | Cancer Care Ontario | Elit | Laurie | Gynecological Oncologist | $105,776.85 | $388.02 |
| Agencies | Cancer Care Ontario | Evans | William | CEO/Medical Oncologist | $149,519.45 | $506.48 |
| Agencies | Cancer Care Ontario | Figueredo | Alvaro | Medical Oncologist | $115,377.81 | $441.02 |
| Agencies | Cancer Care Ontario | Fisher | Barbara | Radiation Oncologist | $115,429.09 | $407.48 |
| Agencies | Cancer Care Ontario | Friedman | Elaine | Radiation Oncologist | $112,039.49 | $441.02 |
| Agencies | Cancer Care Ontario | Gerig | Lee | Chief Physicist | $101,978.20 | $283.30 |
| Agencies | Cancer Care Ontario | Germond | Colin | Program Leader, Systemic Treatment | $194,146.27 | $854.02 |
| Agencies | Cancer Care Ontario | Gertler | Stan | Medical Oncologist | $115,356.51 | $440.90 |
| Agencies | Cancer Care Ontario | Gilchrist | James | Radiation Oncologist | $115,429.09 | $407.48 |
| Agencies | Cancer Care Ontario | Ginsburg | David | Medical Oncologist | $108,912.94 | $421.84 |
| Agencies | Cancer Care Ontario | Girard | Andre | Radiation Oncologist | $130,532.56 | $474.30 |
| Agencies | Cancer Care Ontario | Goel | Rakesh | Medical Oncologist | $115,356.49 | $440.90 |
| Agencies | Cancer Care Ontario | Goss | Glenwood | Medical Oncologist | $115,096.49 | $440.90 |
| Agencies | Cancer Care Ontario | Gregg | Richard | Medical Oncologist | $115,367.05 | $441.02 |
| Agencies | Cancer Care Ontario | Grimard | Laval | Radiation Oncologist | $115,356.49 | $440.90 |
| Agencies | Cancer Care Ontario | Grunfeld | Eva | Clinical Assistant | $103,927.26 | $0.00 |
| Agencies | Cancer Care Ontario | Gulavita | Sunil | Head, Radiation Oncology | $194,104.02 | $442.60 |
| Agencies | Cancer Care Ontario | Halikowski | Marvin | Clinical Assistant | $150,916.29 | $296.86 |
| Agencies | Cancer Care Ontario | Hamilton | Mike | Dentist | $116,627.51 | $350.69 |
| Agencies | Cancer Care Ontario | Hammond | J. Alex | Radiation Oncologist | $126,067.56 | $439.16 |
| Agencies | Cancer Care Ontario | Hirte | Holger | Medical Oncologist | $115,377.81 | $441.02 |
| Agencies | Cancer Care Ontario | Hodson | Ian | Radiation Oncologist | $115,377.81 | $441.02 |

CANCER CARE ONTARIO

RECORD OF EMPLOYEES' 1999 SALARIES AND BENEFITS

| Sector | Employer | Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|---|---|
| Agencies | Cancer Care Ontario | Hollenberg | Charles | Senior Consultant | $234,536.81 | $489.68 |
| Agencies | Cancer Care Ontario | Holowaty | Eric J. | Director, Surveillance Unit | $123,757.17 | $345.63 |
| Agencies | Cancer Care Ontario | Imrie | Kevin | Medical Oncologist | $114,587.36 | $0.00 |
| Agencies | Cancer Care Ontario | Iscoe | Neill | Medical Oncologist | $115,443.04 | $407.48 |
| Agencies | Cancer Care Ontario | Johanson | Curtis | Radiation Oncologist | $115,377.81 | $441.02 |
| Agencies | Cancer Care Ontario | Jones | Glenn | Radiation Oncologist | $115,377.81 | $441.02 |
| Agencies | Cancer Care Ontario | Karsan | Farrok | Radiation Oncologist | $168,855.20 | $832.42 |
| Agencies | Cancer Care Ontario | Khosla | Naresh | Senior Vice President, Financial Affairs/Chief Financial Officer | $177,148.03 | $424.02 |
| Agencies | Cancer Care Ontario | Knight | Andrew | Clinical Assistant | $133,013.52 | $327.14 |
| Agencies | Cancer Care Ontario | Kocha | Walter | Medical Oncologist | $115,429.09 | $407.48 |
| Agencies | Cancer Care Ontario | Koropatnick | James | Director, Cancer Research Labs | $117,064.03 | $246.66 |
| Agencies | Cancer Care Ontario | Kotalik | Jaroslav | Radiation Oncologist | $183,900.41 | $442.60 |
| Agencies | Cancer Care Ontario | Lada | Barbara | Radiation Oncologist | $174,558.20 | $844.88 |
| Agencies | Cancer Care Ontario | Laidlaw | John C. | Director, Education | $127,515.01 | $0.00 |
| Agencies | Cancer Care Ontario | Lassam | Norman | Clinician Scientist | $106,739.66 | $406.78 |
| Agencies | Cancer Care Ontario | Laukkanen | Ethan | CEO/Radiation Oncologist | $135,882.92 | $540.64 |
| Agencies | Cancer Care Ontario | Levin | Leslie | Seconded to Ministry of Health and Long-Term Care as Special Adviser of Cancer Issues | $255,149.02 | $489.68 |
| Agencies | Cancer Care Ontario | Levine | Mark | Medical Oncologist | $133,762.47 | $0.00 |
| Agencies | Cancer Care Ontario | Lofters | Wycliffe | Head, Medical Oncology | $125,658.88 | $462.52 |
| Agencies | Cancer Care Ontario | Logan | Diane | Medical Oncologist | $115,356.49 | $440.90 |
| Agencies | Cancer Care Ontario | Lohmann | Reinhard | Medical Oncologist | $115,429.09 | $407.48 |
| Agencies | Cancer Care Ontario | Lopez | Pedro | Medical Oncologist | $183,855.20 | $832.42 |
| Agencies | Cancer Care Ontario | Lukka | Himu | Radiation Oncologist | $115,377.81 | $441.02 |
| Agencies | Cancer Care Ontario | Mackenzie | Robert | Radiation Oncologist | $115,443.04 | $407.48 |
| Agencies | Cancer Care Ontario | MacKillop | William | Head, Radiation Oncology | $125,658.88 | $462.52 |
| Agencies | Cancer Care Ontario | MacLean | Loraine | Director, Human Resources | $111,913.69 | $312.54 |
| Agencies | Cancer Care Ontario | Mai | Verna M. | Director, Screening Unit | $167,155.85 | $465.77 |
| Agencies | Cancer Care Ontario | Major | Pierre | Medical Oncologist | $115,377.81 | $441.02 |
| Agencies | Cancer Care Ontario | Malik | Saleem | Director, Research/Medical Oncologist | $168,856.88 | $442.60 |
| Agencies | Cancer Care Ontario | Malone | Shawn | Radiation Oncologist | $115,240.50 | $440.90 |
| Agencies | Cancer Care Ontario | Maroun | Jean | Medical Oncologist | $129,492.57 | $474.30 |
| Agencies | Cancer Care Ontario | Mazurka | John | Gynecological Oncologist | $115,377.81 | $441.02 |

## CANCER CARE ONTARIO

## RECORD OF EMPLOYEES' 1999 SALARIES AND BENEFITS

| Sector | Employer | Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|---|---|
| Agencies | Cancer Care Ontario | McCulloch | Peter | Medical Oncologist | $115,377.81 | $441.02 |
| Agencies | Cancer Care Ontario | McGhee | Peter | Chief Physicist | $129,166.10 | $309.52 |
| Agencies | Cancer Care Ontario | McGowan | Thomas S. | Coordinator, Radiation Oncology | $186,940.24 | $389.02 |
| Agencies | Cancer Care Ontario | Meyer | Ralph | Medical Oncologist | $115,377.81 | $441.02 |
| Agencies | Cancer Care Ontario | Moens | Francois | Gynecological Oncologist | $115,377.81 | $441.02 |
| Agencies | Cancer Care Ontario | Morton | Gerard | Radiation Oncologist | $115,443.04 | $0.00 |
| Agencies | Cancer Care Ontario | Neville | Alan | Medical Oncologist | $115,377.81 | $441.02 |
| Agencies | Cancer Care Ontario | Nixon | Judith | Clinical Assistant | $100,931.09 | $292.18 |
| Agencies | Cancer Care Ontario | O'Brien | Peter | Chief Physicist II | $116,653.95 | $325.00 |
| Agencies | Cancer Care Ontario | Okawara | Gordon | Radiation Oncologist | $115,377.81 | $441.02 |
| Agencies | Cancer Care Ontario | Osborne | Raymond | Gynecological Oncologist | $115,443.04 | $407.48 |
| Agencies | Cancer Care Ontario | Paszat | Lawrence | Radiation Oncologist | $115,367.05 | $441.02 |
| Agencies | Cancer Care Ontario | Patel | Maiti | Radiation Oncologist | $115,377.81 | $441.02 |
| Agencies | Cancer Care Ontario | Patterson | Michael | Head, Medical Physics | $116,652.39 | $352.30 |
| Agencies | Cancer Care Ontario | Perera | Francisco | Radiation Oncologist | $115,429.09 | $407.48 |
| Agencies | Cancer Care Ontario | Perry | Gad | Radiation Oncologist | $112,178.19 | $425.90 |
| Agencies | Cancer Care Ontario | Prichard | Hugh | Radiation Oncologist | $168,855.20 | $442.42 |
| Agencies | Cancer Care Ontario | Pritchard | Kathleen | Head, Clinical Trials & Epidemiology | $140,916.79 | $454.40 |
| Agencies | Cancer Care Ontario | Pross | Diane | Medical Coordinator, OBSP/Clinical Assistant | $122,985.67 | $369.50 |
| Agencies | Cancer Care Ontario | Raaphorst | Peter G. | Chief Physicist | $116,628.61 | $351.54 |
| Agencies | Cancer Care Ontario | Radwan | John | Radiation Oncologist | $115,355.81 | $407.48 |
| Agencies | Cancer Care Ontario | Rajasingham | Raj | Clinical Assistant | $101,092.99 | $268.80 |
| Agencies | Cancer Care Ontario | Reiter | Harold | Radiation Oncologist | $115,261.79 | $441.02 |
| Agencies | Cancer Care Ontario | Robillard | Lucie-M | Clinical Assistant | $100,931.05 | $292.18 |
| Agencies | Cancer Care Ontario | Sagar | Stephen | Radiation Oncologist | $115,377.81 | $441.02 |
| Agencies | Cancer Care Ontario | Samant | Rajiv | Program Leader,Radiation Treatment | $149,830.72 | $841.56 |
| Agencies | Cancer Care Ontario | Sathya | Jinka | Radiation Oncologist | $115,377.81 | $441.02 |
| Agencies | Cancer Care Ontario | Sawka | Carol | CEO/Medical Oncologist | $161,930.51 | $478.96 |
| Agencies | Cancer Care Ontario | Schabas | Richard | Head, Preventive Oncology | $209,755.29 | $489.68 |
| Agencies | Cancer Care Ontario | Schneider | Kenneth | Radiation Oncologist | $118,552.08 | $484.98 |
| Agencies | Cancer Care Ontario | Schreiner | John | Chief Physicist | $108,803.36 | $322.54 |
| Agencies | Cancer Care Ontario | Segal-Nadler | Roanne | Medical Oncologist | $114,636.42 | $440.90 |

## CANCER CARE ONTARIO

## RECORD OF EMPLOYEES' 1999 SALARIES AND BENEFITS

| Sector | Employer | Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|---|---|
| Agencies | Cancer Care Ontario | Shelley | Wendy | Radiation Oncologist | $115,251.10 | $441.02 |
| Agencies | Cancer Care Ontario | Sicheri | Dolores | Medical Oncologist | $118,552.08 | $484.98 |
| Agencies | Cancer Care Ontario | Singh | Dilmohan | Clinical Assistant | $101,092.99 | $268.80 |
| Agencies | Cancer Care Ontario | Singh | Gurmit | Director, Research | $117,910.47 | $356.94 |
| Agencies | Cancer Care Ontario | Slingerland | Joyce | Clinician Scientist | $155,879.96 | $486.11 |
| Agencies | Cancer Care Ontario | Smith | Annne | CEO/Medical Oncologist | $129,411.39 | $455.90 |
| Agencies | Cancer Care Ontario | Spaner | David E. | Clinician Scientist | $156,029.90 | $406.60 |
| Agencies | Cancer Care Ontario | Springer | Colvin | Radiation Oncologist | $118,552.08 | $484.98 |
| Agencies | Cancer Care Ontario | Stewart | David | Medical Oncologist | $115,356.49 | $440.90 |
| Agencies | Cancer Care Ontario | Sutherland | Donald | Medical Oncologist | $115,443.04 | $407.48 |
| Agencies | Cancer Care Ontario | Tenhunen | Linda | Clinical Assistant | $133,013.52 | $327.14 |
| Agencies | Cancer Care Ontario | Thomas | Gillian | Head, Radiation Oncology | $140,132.48 | $446.54 |
| Agencies | Cancer Care Ontario | Tomiak | Anna | Medical Oncologist | $115,239.74 | $407.48 |
| Agencies | Cancer Care Ontario | Tomiak | Eva | Medical Oncologist | $101,067.03 | $0.00 |
| Agencies | Cancer Care Ontario | Touchie | Michael | Clinical Assistant | $100,931.07 | $292.18 |
| Agencies | Cancer Care Ontario | Truong | Pauline | Radiation Oncologist | $107,167.30 | $0.00 |
| Agencies | Cancer Care Ontario | Ung | Yee | Radiation Oncologist | $109,559.70 | $0.00 |
| Agencies | Cancer Care Ontario | Van Dyk | Jake | Manager, Radiation Treatment Planning & Delivery Support | $116,627.41 | $325.00 |
| Agencies | Cancer Care Ontario | Vandenberg | Theodore | Medical Oncologist | $115,429.09 | $407.48 |
| Agencies | Cancer Care Ontario | Veldhuis | Keimpe | Clinical Assistant | $112,742.21 | $296.86 |
| Agencies | Cancer Care Ontario | Venkatesan | Varagur | Radiation Oncologist | $115,429.09 | $407.48 |
| Agencies | Cancer Care Ontario | Vergidis | Dimitrios | Head, Systemic Therapy | $179,147.50 | $442.60 |
| Agencies | Cancer Care Ontario | Verma | Shailendra | Medical Oncologist | $114,706.50 | $440.90 |
| Agencies | Cancer Care Ontario | Vincent | Mark | Medical Oncologist | $115,355.81 | $407.48 |
| Agencies | Cancer Care Ontario | Voruganti | Sachi | Radiation Oncologist | $115,239.75 | $407.48 |
| Agencies | Cancer Care Ontario | Waddell | Mary | Clinical Assistant | $100,672.00 | $0.00 |
| Agencies | Cancer Care Ontario | Warner | Ellen | Medical Oncologist | $104,401.69 | $406.60 |
| Agencies | Cancer Care Ontario | Weinroth | Judith | Clinical Assistant | $103,134.80 | $279.18 |
| Agencies | Cancer Care Ontario | Whelan | Tim | Radiation Oncologist | $115,377.81 | $441.02 |
| Agencies | Cancer Care Ontario | Whitton | Anthony | Radiation Oncologist | $130,816.02 | $474.52 |
| Agencies | Cancer Care Ontario | Wierzbicki | Rafal | Medical Oncologist | $103,635.62 | $395.79 |
| Agencies | Cancer Care Ontario | Winquist | Eric | Medical Oncologist | $111,283.81 | $407.48 |

## CANCER CARE ONTARIO

## RECORD OF EMPLOYEES' 1999 SALARIES AND BENEFITS

| Sector | Employer | Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|---|---|
| Agencies | Cancer Care Ontario | Wojcicki | Anna | Radiation Oncologist | $122,169.18 | $0.00 |
| Agencies | Cancer Care Ontario | Wong | Rebecca | Radiation Oncologist | $115,443.04 | $407.48 |
| Agencies | Cancer Care Ontario | Wright | Jim | Radiation Oncologist | $106,477.24 | $388.02 |
| Agencies | Cancer Care Ontario | Yau | Jonathan | Medical Oncologist | $111,153.98 | $426.00 |
| Agencies | Cancer Care Ontario | Yoshida | Sam | Medical Oncologist | $118,552.08 | $484.98 |
| Agencies | Cancer Care Ontario | Young | Vincent | Medical Oncologist | $115,356.50 | $440.90 |
| Agencies | Cancer Care Ontario | Youssef | Youssef | Radiation Oncologist | $115,251.10 | $441.02 |
| Agencies | Cancer Care Ontario | Yu | Edward | Radiation Oncologist | $115,239.75 | $407.48 |
| Agencies | Cancer Care Ontario | Zellmer | Darwin | Chief Medical Physicist | $100,195.97 | $41,078.69 |

I certify that the information provided on this record is correct in accordance with the Public Sector Salary Disclosure Act, 1996.

Naresh Khosla
Name

Senior Vice President, Financial Affairs and Chief Financial Officer
Position Title

(416)-971-9800
Phone Number

March 10,2000
Date

Prepared under the Public Sector Salary Disclosure Act, 1996.

Ontario Science Centre
*Centre des sciences de l'Ontario*

August 10, 2000

Management's Responsibility
For Financial Information

Management and the Board of Trustees of the Ontario Science Centre are responsible for the financial statements and all other information presented in this Annual Report. The financial statements have been prepared by Management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on Management's best estimates and judgements.

The Ontario Science Centre is dedicated to the highest standards of integrity in its business. To safeguard assets, the Centre has a sound set of internal financial controls and procedures that balance benefits and costs. Management has developed and maintains financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information.

The Board of Trustees meets quarterly to oversee the financial activities of the Centre, including an annual review of the financial statements and the Provincial Auditor's report.

The financial statements have been examined by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

Lesley Lewis

Lesley Lewis,
Director General

Sharon Cohen,
General Manager, Business Planning
and Operations

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

***Auditor's Report***

To the Board of Trustees of the Centennial Centre of Science and Technology
and to the Minister of Citizenship, Culture and Recreation

I have audited the balance sheet of The Centennial Centre of Science and Technology as at March 31, 2000 and the statements of operations, changes in equity, special purpose fund and cash flows for the year then ended. These financial statements are the responsibility of the Centre's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Centre as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Toronto, Ontario
June 20, 2000

J.R. McCarter, CA
Assistant Provincial Auditor (Acting)

## THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

### Balance Sheet
### As at March 31, 2000

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and short-term investments | 4,856,276 | 7,233,595 |
| Accounts receivable | 1,140,494 | 485,650 |
| Prepaid expenses | 123,584 | 245,040 |
| Inventory of general stores and small tools | 120,831 | 114,612 |
| Work-in-progress | — | 1,317,919 |
| | 6,241,185 | 9,396,816 |
| **Capital Assets** (Note 4) | 19,970,838 | 21,404,504 |
| **Special Purpose Funds** (Note 3) | | |
| Cash and short-term investments | 373,277 | 440,320 |
| | 26,585,300 | 31,241,640 |
| **Liabilities, Equity and Fund Balances** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | 1,670,750 | 1,493,066 |
| Deferred Income | 1,623,120 | 1,911,988 |
| Due to Province of Ontario | 1,353,927 | 3,271,577 |
| Loan Payable [Note 9(c)] | 166,667 | 166,667 |
| | 4,814,464 | 6,843,298 |
| **Long Term Liabilities** | | |
| Loan Payable to Province of Ontario [Note 9(a)] | 5,300,000 | 5,300,000 |
| Loan Payable to Ontario Financing Authority [Note 9(b)] | 600,000 | 600,000 |
| Loan Payable [Note 9(c)] | 830,703 | 997,370 |
| | 6,730,703 | 6,897,370 |
| **Deferred Capital Contributions** (Note 5) | 9,652,713 | 9,794,963 |
| **Equity** | | |
| Invested in Capital Assets (Note 6) | 10,318,125 | 11,609,541 |
| Deficit | (5,303,982) | (4,343,852) |
| | 5,014,143 | 7,265,689 |
| **Special Purpose Fund** | | |
| Fund balance | 373,277 | 440,320 |
| | 26,585,300 | 31,241,640 |

See accompanying notes to financial statements.

Approved on behalf of the Centre:

Nancy Lockhart
Chair

Trustee

## THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

### Statement of Operations
### For the Year Ended March 31, 2000

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| **Revenue** | | |
| Province of Ontario | | |
| - operating grant | 10,813,100 | 10,813,100 |
| - occupancy grant [Note 11(b)] | 3,970,400 | 3,967,400 |
| - Y2K grant | 2,092,311 | 1,553,089 |
| - exhibit grant | 62,500 | — |
| Fees | | |
| - entrance | 4,083,377 | 3,843,465 |
| - theatre | 2,090,933 | 2,618,794 |
| - parking | 563,565 | 576,330 |
| Revenue from Ancillary operations (Schedule 1) | 5,943,085 | 4,789,934 |
| | 29,619,271 | 28,162,112 |
| **Expenses** | | |
| Salaries and employee benefits | 13,568,540 | 11,319,413 |
| Occupancy cost [Note 11(b)] | 4,018,416 | 3,997,509 |
| Materials for maintenance of exhibits | 1,240,204 | 1,293,098 |
| Building and ground cleaning | 1,385,836 | 1,086,863 |
| Advertising and promotion | 1,165,705 | 1,351,300 |
| Supplies and publications | 1,562,649 | 881,418 |
| Telephone, postage and freight | 485,225 | 480,974 |
| Professional fees | 1,278,340 | 972,716 |
| Travel | 283,768 | 144,603 |
| Film and exhibit rentals | 819,567 | 946,733 |
| Demonstration and instruction | 166,354 | 121,653 |
| Other | 110,089 | 370,396 |
| Expenses from Ancillary Operations (Schedule 2) | 3,456,223 | 3,146,665 |
| | 29,540,916 | 26,113,341 |
| **Excess of Revenue over Expenses before amortization** | 78,355 | 2,048,771 |
| **Amortization of deferred capital contributions** (Note 5) | 1,085,722 | 1,030,502 |
| **Amortization Expense** | (3,415,623) | (3,335,816) |
| **Net loss for the year** | (2,251,546) | (256,543) |

See accompanying notes to financial statements.

## THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

### Statement of Changes in Equity
### For the Year Ended March 31, 2000

| | 2000 $ | | | 1999 $ |
|---|---|---|---|---|
| | **Equity Invested in Capital Assets** | **Deficit from Operations** | **Total** | **Total** |
| Balance, beginning of year | 11,609,541 | (4,343,852) | 7,265,689 | 7,522,232 |
| Excess of capital assets purchased over grants received | 1,038,485 | (1,038,485) | — | — |
| Net loss for the year | (2,329,901) | 78,355 | (2,251,546) | (256,543) |
| Balance, end of year | 10,318,125 | (5,303,982) | 5,014,143 | 7,265,689 |

See accompanying notes to financial statements.

## THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

### Statement of Special Purpose Fund
### For the Year Ended March 31, 2000

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| **Revenue** | | |
| Donations | 7,074 | 129,102 |
| Interest earned | 10,496 | 10,430 |
| | 17,570 | 139,532 |
| **Expenditure** | 84,613 | 89,370 |
| **Net (Loss)/Income** | (67,043) | 50,162 |
| **Balance, beginning of year** | 440,320 | 390,158 |
| **Balance, end of year** (Note 3) | 373,277 | 440,320 |

See accompanying notes to financial statements.

## THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

### Statement of Cash Flows
### For the Year Ended March 31, 2000

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net loss for the year | (2,251,546) | (256,543) |
| Special Purpose Fund net (loss) income | (67,043) | 50,162 |
| Adjustments against net loss not requiring an outlay of cash | | |
| - amortization of capital assets | 3,415,623 | 3,335,816 |
| - amortization of deferred capital contributions | (1,085,722) | (1,030,502) |
| | 11,312 | 2,098,933 |
| Net change in non-cash working capital | (1,250,522) | 3,590,200 |
| Net cash (used in)/generated through operating activities | (1,239,210) | 5,689,133 |
| **Cash Flows from Investing and Financing Activities** | | |
| Capital Assets acquisitions | (1,981,957) | (846,932) |
| Receipt of capital contributions | 943,472 | 1,062,056 |
| Repayment of Loans | (166,667) | (1,166,667) |
| Net cash used in investing and financing activities | (1,205,152) | (951,543) |
| **Net (decrease) increase in cash and short-term investments, during the year** | (2,444,362) | 4,737,590 |
| **Cash and short-term investments, beginning of year** | 7,673,915 | 2,936,325 |
| **Cash and short-term investments, end of year** | 5,229,553 | 7,673,915 |

See accompanying notes to financial statements.

## THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

### Schedule of Revenue and Expenses from Ancillary Operations
### For the Year Ended March 31, 2000

---

**SCHEDULE 1**

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| **Revenue** | | |
| Sales | | |
| - Exhibits and Publications | 971,167 | 1,363,550 |
| - Camps | 395,353 | 340,006 |
| Exhibit rentals | 1,098,558 | 763,798 |
| Concession and rental revenue | 1,016,375 | 982,439 |
| Sponsorships and donations | 1,418,524 | 236,663 |
| Memberships | 543,452 | 454,976 |
| Interest earned | 489,556 | 598,492 |
| Other | 10,100 | 50,010 |
| | 5,943,085 | 4,789,934 |

**SCHEDULE 2**

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| **Expenses** | | |
| Cost of Exhibit sales | 720,574 | 1,219,617 |
| Camps | 390,280 | 253,003 |
| Cost of Exhibit rentals | 457,826 | 309,630 |
| Concession and rental expenses | 221,200 | 227,699 |
| Sponsored activities | 975,554 | 412,910 |
| Membership | 297,542 | 196,119 |
| Business development | 365,206 | 404,920 |
| Omnimax development | — | 37,338 |
| Interest expense | 28,041 | 85,429 |
| | 3,456,223 | 3,146,665 |

See accompanying notes to financial statements.

## THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

### Notes to Financial Statements
March 31, 2000

---

### 1. NATURE OF THE BUSINESS

The Centennial Centre of Science and Technology, commonly known as the Ontario Science Centre, was established under *The Centennial Centre of Science and Technology Act*. The Centre's mission is to open minds to science and technology.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Accounting

The financial statements of the Centre have been prepared in accordance with generally accepted accounting principles.

#### (b) Inventory

Inventory is valued at the lower of cost or replacement cost.

#### (c) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of the assets as indicated below:

| | |
|---|---|
| Omnimax Theatre Leasehold Improvements | 20 years |
| Leasehold Improvements | 10 years |
| Exhibits | 10 years |
| Exhibits - Rentals | 4 years |
| Furniture, Fixtures and Equipment | 5 years |
| Computer Equipment | 3 years |

The land on which the Centre is located is leased from the City of Toronto for $1 per annum on a 99-year lease which commenced July 1, 1965. The Ontario Realty Corporation owns the buildings which house the Centre.

#### (d) Pledges

Pledges to donate funds are included in income when received.

#### (e) Revenue Recognition

Revenue on exhibits manufactured for sale is recognized on a percentage of completion basis.

### 3. SPECIAL PURPOSE FUND ADMINISTRATION

The use of certain sources of revenue may be restricted for a specific purpose by external contributors. The Board of Trustees can spend any funds not otherwise restricted by external contributors for any purpose, provided the expenditures promote the objectives of the Centre.

As at March 31, 2000, $67,320 (1999 - $151,132) of the special purpose fund balance was restricted by external contributors for use in supported activities.

## THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

**Notes to Financial Statements**
**March 31, 2000**

### 4. CAPITAL ASSETS

Capital assets consists of the following:

| | March 31, 2000 | | | 1999 |
|---|---|---|---|---|
| | Cost<br>$ | Accumulated Amortization<br>$ | Net Book Value<br>$ | Net Book Value<br>$ |
| Exhibits | 15,593,321 | 11,708,446 | 3,884,875 | 5,319,910 |
| Exhibits – Rentals | 1,473,047 | 175,000 | 1,298,047 | — |
| Omnimax Theatre Leasehold Improvements | 14,559,900 | 2,911,980 | 11,647,920 | 12,375,915 |
| Leasehold Improvements | 4,505,851 | 2,116,993 | 2,388,858 | 2,839,444 |
| Furniture, Fixtures and Equipment | 942,204 | 677,936 | 264,268 | 229,885 |
| Computer Equipment | 2,074,225 | 1,587,355 | 486,870 | 639,350 |
| | 39,148,548 | 19,177,710 | 19,970,838 | 21,404,504 |

### 5. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the amount of donations and government grants received and used to acquire capital assets but not yet recognized as revenue. Revenue will be recognized over the same period as the expected life of the capital assets to which they relate, in order to properly match revenues with costs. The changes in the deferred contributions balance are as follows:

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| Balance, beginning of year | 9,794,963 | 9,763,409 |
| Donations received during the year | 943,472 | 1,062,056 |
| Amortization of deferred capital contributions | (1,085,722) | (1,030,502) |
| Balance, end of year | 9,652,713 | 9,794,963 |

### 6. EQUITY INVESTED IN CAPITAL ASSETS

Equity invested in capital assets represents the following:

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| Capital assets, net | 19,970,838 | 21,404,504 |
| Less amount financed by deferred capital contributions | (9,652,713) | (9,794,963) |
| | 10,318,125 | 11,609,541 |

## THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

### Notes to Financial Statements
March 31, 2000

---

### 7. PROPERTY MAINTENANCE AND REPAIRS

Certain maintenance and repair expenses of the Centre are absorbed by the Province of Ontario and are not included in the Statement of Operations.

### 8. PENSION PLAN

The Centre provides pension benefits for substantially all its permanent employees through participation in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario.

The Centre's contributions related to the pension plans for the year were $719,448 (1999 – $587,587). These contributions have been included in salaries and employee benefits in the Statement of Operations.

### 9. LOANS PAYABLE

#### (a) Loan from Province of Ontario

The Province made an interest-free repayable loan of $5,300,000 to the Centre to construct the Omnimax Theatre. The Centre shall repay this loan by annual payments commencing in 1999/2000. The annual payments are to be made on June 30th of each year, in amounts equal to 50% of the average annual profits received by the Centre from the Omnimax Theatre during the previous two fiscal years. Such annual payments shall continue until the principal of the loan is repaid.

#### (b) Loan from the Ontario Financing Authority

The Ontario Financing Authority (OFA) agreed to lend the Centre an amount not to exceed $3,007,000, at interest calculated based on the OFA prevailing 90-day lending rate. The Centre is to repay the amount outstanding together with accrued interest by March 31, 2002.

#### (c) Food Service Agreement

The Centre has entered into a 10-year agreement with a food services company to provide food services until May 31, 2006. The company contributed approximately $1.5 million to the Centre for the construction of new restaurants and other food service related facilities, as stipulated under the terms of the agreement.

Under the terms of the agreement, the annual net profit from the food and beverage operations managed by the company are to be shared between the company and the Centre in accordance with a formula in the agreement. The agreement specifies certain fixed payments to the company as follows: (1) an annual management fee, starting at $130,000 in 1996/97, reduced by $10,000 for each of the following years; and (2) a refund of the $1.5 million contribution without interest in nine equal installments, which started in 1997/98.

## THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

**Notes to Financial Statements**
**March 31, 2000**

---

### 10. PLEDGES

The Centre began a capital campaign in 1995/96 to raise funds for the construction of the Omnimax Theatre project. Funds from written pledge commitments to be received over the next two years are as follows:

| | $ |
|---|---|
| 2000/01 | 391,215 |
| 2001/02 | 294,710 |

### 11. COMMITMENTS AND CONTINGENCIES

#### (a) Imax Dome Projection System Maintenance Agreement

The Centre has a ten-year agreement expiring in December 2006, with an automatic renewal for one further 10-year term, for leasing and servicing of an Imax Dome Projection System. The agreement commits the Centre to: (1) monthly rental payments to be calculated in accordance with a formula based on admission revenue; and (2) an annual maintenance fee of $66,000 (adjusted to reflect changes in the Consumer Price Index for Toronto). Rental payments for the year totalled $103,786 and are included in the Film and Exhibit Rentals account. Maintenance fees for the year totalled $71,586 and are included in the Materials for Maintenance of Exhibits account.

#### (b) Occupancy Cost

Starting April 1, 1998, the Ontario Realty Corporation started to charge the Centre an accommodation fee for occupying its facilities. The accommodation charge is provided for in a five-year agreement, which ends March 31, 2003, and is to cover rent, taxes, maintenance and certain operating costs. The Centre receives a Ministry grant each year to fund this expenditure.

Minimum payments for the next three years are as follows:

| | $ |
|---|---|
| 2000/01 | 3,959,128 |
| 2001/02 | 3,959,128 |
| 2002/03 | 3,959,128 |
| | 11,877,384 |

The Centre also has a five-year lease agreement with the City of Toronto for the Centre's Parking Lot. The minimum lease payments for the remaining three years of the lease are as follows:

| | $ |
|---|---|
| 2000/01 | 40,000 |
| 2001/02 | 40,000 |
| 2002/03 | 40,000 |
| | 120,000 |

**THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY**

**Notes to Financial Statements**
**March 31, 2000**

## 12. COMPARATIVE FIGURES

The March 31, 1999 comparative figures have been reclassified where necessary to conform to the current year's presentation.

# THE CENTENNIAL CENTRE OF SCIENCE AND TECHNOLOGY

## PUBLIC SECTOR SALARY DISCLOSURE
## FISCAL YEAR ENDING MARCH 31, 2000

| EMPLOYER | SURNAME | GIVEN NAME | POSITION TITLE | SALARY PAID | TAXABLE BENEFITS |
|---|---|---|---|---|---|
| The Centennial Centre of Science and Technology | Lewis | Lesley | Director General | $132,086.68 | $351.36 |
| The Centennial Centre of Science and Technology | Cohen | Sharon | General Manager Business Planning | $115,687.85 | $322.16 |

# Management Report

**Independent Electricity Market Operator**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Independent Electricity Market Operator are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies followed by the Independent Electricity Market Operator are described in the Summary of Significant Accounting Policies contained in Note 3 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been prepared within reasonable limits of materiality and in light of information available up to March 24, 2000.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safeguarded and that reliable information was available on a timely basis. The system included formal policies and procedures and an organizational structure that provided for the appropriate delegation of authority and segregation of responsibilities.

These financial statements have been examined by PricewaterhouseCoopers LLP, a firm of independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles in Canada. The Auditors' Report, which follows, outlines the scope of their examination and their opinion.

**INDEPENDENT ELECTRICITY MARKET OPERATOR**

On behalf of management,

Paul Murphy

Paul Murphy
*Acting President & Chief Executive Officer*
*Independent Electricity Market Operator*
*As at March 24, 2000*

Douglas Thomas

Douglas J. Thomas
*Chief Financial Officer*
*Independent Electricity Market Operator*
*As at March 24, 2000*

Toronto, Canada
March 24, 2000

# Auditors' Report

To the Board of Directors of the Independent Electricity Market Operator ("IMO"):

We have audited the statements of financial position of the IMO as at December 31, 1999 and April 1, 1999, and the statements of operations and deficit and cash flows for the nine month period ended December 31, 1999. These financial statements are the responsibility of the IMO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the IMO as at December 31, 1999 and April 1, 1999, and the results of its operations and its cash flows for the nine month period ended December 31, 1999 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Canada
March 24, 2000

# Statement of Operations and Deficit

| *(in thousands of Canadian dollars)* | NINE MONTHS ENDED DECEMBER 31, 1999 |
|---|---|
| | $ |
| **REVENUES** *(Note 3(b))* | |
| System fees | 56,910 |
| Ancillary services, rural rate assistance and remote subsidies | 181,243 |
| **TOTAL REVENUES** | **238,153** |
| **EXPENSES** | |
| Cost of ancillary services, rural rate assistance and remote subsidies | 181,243 |
| Labour | 22,374 |
| Transition costs | 7,689 |
| Telecommunication | 6,839 |
| Other costs | 9,499 |
| Amortization | 8,246 |
| **TOTAL EXPENSES** | **235,890** |
| **Income before interest** | **2,263** |
| Interest income | (685) |
| Interest expense | 4,556 |
| **LOSS FOR THE PERIOD** | **(1,608)** |
| Accumulated deficit – beginning of period | – |
| Accumulated deficit – end of period | (1,608) |

See accompanying notes to Financial Statements.

# Statements of Financial Position

| *(in thousands of Canadian dollars)* | AS AT DECEMBER 31, 1999 | AS AT APRIL 1, 1999 |
|---|---|---|
| | $ | $ |
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | 20,992 | 7,937 |
| Temporary investments | 34,172 | – |
| Amounts due under Revenue Allocation Agreement | 26,919 | 26,322 |
| Prepaid expenses | 2,111 | 346 |
| | **84,194** | **34,605** |
| **Capital assets** *(Note 4)* | | |
| Capital assets in service | 65,423 | 70,998 |
| Construction-in-progress | 71,011 | 3,955 |
| | **136,434** | **74,953** |
| **Other assets** | | |
| Prepaid operating expenses | 3,222 | – |
| Prepaid pension expense *(Note 8)* | 15,778 | 16,791 |
| **TOTAL ASSETS** | **239,628** | **126,349** |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities *(Note 5)* | 59,566 | 31,298 |
| Accrued interest | 2,149 | – |
| | 61,715 | 31,298 |
| **Long-term debt** *(Note 6)* | 161,534 | 78,200 |
| **Accrual for employee future benefits other than pensions** *(Note 8)* | 17,987 | 16,851 |
| **TOTAL LIABILITIES** | **241,236** | **126,349** |
| **ACCUMULATED DEFICIT** | **(1,608)** | – |
| **TOTAL LIABILITIES AND DEFICIT** | **239,628** | **126,349** |

See accompanying notes to Financial Statements.

On behalf of the Board:

James C. Baillie

Barry E. Chuddy

# Statement of Cash Flows

| *(In thousands of Canadian dollars)* | NINE MONTHS ENDED DECEMBER 31, 1999 |
|---|---|
| | $ |
| OPERATING ACTIVITIES | |
| Loss for the period | (1,608) |
| Adjustments for non-cash items: | |
| Amortization | 8,246 |
| Decrease in prepaid pension expense | 1,013 |
| Increase in accrual for employee future benefits other than pensions | 1,136 |
| | 8,787 |
| Changes in non-cash balances related to operations: | |
| Increase in current liabilities | 8,546 |
| Increase in prepaid expenses | (4,987) |
| Increase in amounts due under Revenue Allocation Agreement | (597) |
| | 2,962 |
| **Cash provided from operations** | **11,749** |
| INVESTING ACTIVITIES | |
| Net purchase of temporary investments | (34,172) |
| Costs of construction-in-progress | (45,185) |
| Purchase of capital assets in service | (2,671) |
| **Cash used for investing** | **(82,028)** |
| FINANCING ACTIVITIES | |
| Issue of long-term debt | 83,334 |
| **Cash provided from financing** | **83,334** |
| NET CHANGE IN CASH & CASH EQUIVALENTS | 13,055 |
| CASH & CASH EQUIVALENTS – BEGINNING OF PERIOD | 7,937 |
| CASH & CASH EQUIVALENTS – END OF PERIOD | 20,992 |

See accompanying notes to Financial Statements.

# Notes to Financial Statements

**1. Restructuring of the Ontario Electricity Industry**

The North American electrical utility industry has undertaken initiatives to move away from traditional monopolies towards competitive models that are more conducive to customer choice. On October 30, 1998, the Government of Ontario enacted the *Energy Competition Act, 1998* to restructure the business carried on by Ontario Hydro and introduce competition during the year 2000.

Prior to the restructuring, Ontario Hydro was a vertically integrated, rate-regulated electricity utility. On April 1, 1999, Ontario Hydro was restructured into a number of successor entities, as follows:

- Ontario Power Generation Inc. (OPG), a generation company;
- Ontario Hydro Services Company Inc. (OHSC), a rate-regulated transmission and distribution business, which operates certain energy services businesses in an unregulated business environment;
- Independent Electricity Market Operator (IMO), a non-profit organization, which is the independent system coordinator;
- Electrical Safety Authority (ESA), a non-profit organization, which carries out electrical inspections previously conducted by Ontario Hydro; and
- Ontario Electricity Financial Corporation (OEFC), the continuing Ontario Hydro entity, which has the objectives of managing debt, administering assets, liabilities, rights and obligations not transferred to a successor entity, and acting as administrator of the OEFC Pension Plan until arrangements are completed to transfer assets and liabilities to the new pension plans of the successor entities.

**2. Commencement of Operations**

Independent Electricity Market Operator was created by statute, effective on April 1, 1999, pursuant to Part II of the *Electricity Act, 1998*. As set out in the Electricity Act, the IMO operates pursuant to a license granted by the Ontario Energy Board. The IMO received from Ontario Hydro certain assets and liabilities, principally those related to the former Central Market Operations business unit of Ontario Hydro. Net assets acquired from Ontario Hydro were $78.2 million, which were financed by the issuance of debt as described in Note 6.

The IMO is a not-for-profit corporation without share capital whose objects are set out in Part II, sub-section 5(1) of the Electricity Act as follows;

- to exercise and perform the powers and duties assigned to the IMO under the *Electricity Act, 1998*, the market rules and license;
- to enter into agreements with transmitters giving the IMO the authority to direct the operations of their transmission systems;
- to direct the operations and maintain the reliability of the IMO-controlled grid to promote the purposes of the *Electricity Act, 1998;*
- to establish and operate the IMO-administered markets to promote the purposes of the *Electricity Act, 1998;*
- to collect and provide to the public information relating to the current and future electricity needs of Ontario and the capacity of the integrated power system to meet those needs;
- to participate in the development by any standards authority of standards and criteria relating to the reliability of the transmission systems; and
- to work with the responsible authorities outside Ontario to coordinate the IMO's activities with their activities.

As specified in the Electricity Act, any surplus generated shall be used by the IMO for the purposes of carrying out its objects. The IMO expects to recover any deficits in future system fees, subject to approval by the Ontario Energy Board.

**3. Summary of Significant Accounting Policies**

**a) Basis of financial statement preparation**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The financial position, results of operations and cash flows presented in these financial statements reflect the opening balances transferred from Ontario Hydro on April 1, 1999 for assets and liabilities on an historic cost basis and subsequent business for the nine-month period ended December 31, 1999.

**b) Revenue recognition**

In accordance with a draft agreement ("Transitional Revenue Allocation Agreement") between the IMO and the other successor entities of Ontario Hydro, the IMO receives system fees and fees for ancillary services, rural rate assistance and remote subsidies.

The Transitional Revenue Allocation Agreement, which will cover 1999 and the transition period prior to market opening, has not been finalized. Accordingly, revenues reported in these financial statements, substantially all of which have been received in cash, are based on draft agreements which could be subject to change. The IMO is not aware of any circumstances that would suggest changes will be made to its revenue allocation.

**c) Transition costs and construction-in-progress**

The IMO plays a key role in conjunction with future market participants and other stakeholders in the development of the competitive wholesale electricity market in Ontario. As part of this role, the IMO is charged with developing and implementing the systems, including hardware and software, processes and procedures required to operate the competitive marketplace. The development of these systems, processes and procedures is a multi-year effort. The opening of the competitive market is currently targeted for late 2000.

Costs relating to this initiative are either capitalized, based on the future benefit after the opening of the market, or charged to current operations. Costs that have been capitalized are included within construction-in-progress, while costs charged to current operations are included as transition costs. Capitalized costs generally relate to the costs of physical facilities, hardware and software required for the operation of the market and include costs paid to vendors, internal and external labour, consultants, an applicable share of overhead, and an allocation of interest related to funds borrowed to finance the project. Transition costs, which are charged to current operations, generally relate to the design of market rules, market and internal processes and procedures, and organizational design and include costs for internal and external labour, consultants, and an applicable share of overhead.

**d) Capital assets**

Capital assets as at April 1, 1999 were recorded at the net book value amounts transferred from Ontario Hydro. Subsequent additions are capitalized at cost, which comprises materials, labour, engineering costs, overheads, and interest applicable to capital construction activities.

**e) Amortization**

The cost of capital assets in service is amortized principally on a straight-line basis over their estimated service life.

The estimated average service lives of IMO's principal assets are:

| Class | Estimated Average Service Life |
|---|---|
| Administration Buildings | 50 |
| Data Acquisition Computing Systems | 2 |

Gains and losses on sales of capital assets and losses on premature retirements are charged to operations as adjustments to amortization expense. Removal costs are charged to amortization expense as incurred.

The estimated service lives of capital assets and the significant assumptions underlying the estimates of fixed asset removal costs are subject to periodic review. The impact of changes in the estimated lives of capital assets are amortized on a prospective basis.

**f) Cash and cash equivalents**

Cash and cash equivalents comprise cash, term deposits and other short term investments with original maturity dates of less than 90 days.

**g) Temporary investments**

Short-term money market investments with original maturities of 90 days or longer are classified as temporary investments and valued at amortized cost. Premiums and discounts are amortized to income using the constant yield method over the period to maturity.

**h) Pension and other post-employment benefits**

The IMO's post-employment benefit programs include pension, group life insurance, health care, long-term disability and workers compensation benefits.

The IMO accrues obligations under pension and other post-employment benefit ("OPEB") plans and the related costs, net of plan assets. Pension fund assets are valued using current market values. Pension and OPEB expenses and obligations are determined annually by independent actuaries using the projected benefit method and management's best estimates.

Pension and OPEB expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions, and experience gains or losses, which are amortized on a straight line basis over the expected average remaining service life of the employees covered by the plan. Pension and OPEB expenses are recorded during the year in which employees render services.

**i) Fair value of financial instruments**

The carrying amounts reported in the statements of financial position for financial instruments, comprising current assets, current liabilities and long-term debt, approximate their fair values.

**j) Foreign exchange**

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies in the statements of financial position are translated in Canadian dollars at the rate prevailing at that date. Exchange gains and losses arising on settlement of foreign exchange transactions are reported in the statement of operations and deficit at the date at which the transactions are settled.

**k) Use of estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements. Actual results could differ from those estimates.

**4. Capital Assets**

Capital assets in service consist primarily of the Clarkson System Control Centre administration building, data acquisition computing systems (DACS), computers and furniture.

| | *As at December 31, 1999* | | | *As at April 1, 1999* |
|---|---|---|---|---|
| *(in thousands of Canadian dollars)* | BOOK VALUE | ACCUMULATED AMORTIZATION | NET BOOK VALUE | NET BOOK VALUE |
| | $ | $ | $ | $ |
| **Capital assets in service** | | | | |
| Administration buildings | 48,407 | 1,761 | 46,646 | 48,262 |
| Data acquisition computer systems | 19,764 | 5,465 | 14,299 | 19,764 |
| Computers and furniture | 5,498 | 1,020 | 4,478 | 2,972 |
| | 73,669 | 8,246 | 65,423 | 70,998 |
| **Construction-in-progress** | 71,011 | – | 71,011 | 3,955 |
| | **144,680** | **8,246** | **136,434** | **74,953** |

Interest capitalized to construction-in-progress during the period was $723,337.

**5. Accounts Payable and Accrued Liabilities**

| *(in thousands of Canadian dollars)* | AS AT DECEMBER 31, 1999 | AS AT APRIL 1, 1999 |
|---|---|---|
| | $ | $ |
| Relating to Revenue Allocation Agreement | 20,133 | 19,979 |
| Relating to capital assets | 25,793 | 3,922 |
| Relating to operations | 13,640 | 7,397 |
| | **59,566** | **31,298** |

### 6. Long-term Debt

| *(in thousands of Canadian dollars)* | AS AT DECEMBER 31, 1999 | AS AT APRIL 1, 1999 |
|---|---|---|
| | $ | $ |
| **Notes payable to** | | |
| Ontario Electricity Financial Corporation (OEFC) | 78,200 | 78,200 |
| Province of Ontario | 83,334 | – |
| | **161,534** | **78,200** |

**Note payable to OEFC**

The long-term note payable to Ontario Electricity Finance Corporation (OEFC) is unsecured, bears interest at 7.9% per annum and is repayable in full on May 1, 2009. Interest accrues daily and is payable in arrears, in equal semi-annual payments on May 1 and November 1 of each year commencing May 1, 1999.

**Note payable to Province of Ontario**

The IMO negotiated a two-year unsecured loan in the amount of $125 million from the Province of Ontario. Two tranches of the loan have been drawn as follows:

(a) an advance on May 3, 1999 in the amount of $41.667 million;
(b) an advance on October 1, 1999 in the amount of $41.667 million.

A further advance is expected to be drawn on March 1, 2000 in the amount of $41.666 million.

The advances bear interest at 5.385%, 5.455%, and 5.575% per annum respectively. Interest accrues daily and is payable in arrears, in equal semi-annual payments on May 1 and November 1 of each year commencing November 1, 1999. The loan is due and payable in full on May 1, 2001.

**Credit facility**

IMO has a revolving credit facility agreement with a Canadian chartered bank. The agreement provides for the bank to make available to the IMO a committed extendible 364-day revolving credit facility of $20 million for general working purposes. The credit agreement is unsecured. Advances under this facility are available in Canadian dollars by way of prime rate loans, Bankers' Acceptances, and also by way of letters of credit, the latter being subject to a limit of $2 million. Unused portions of this credit facility are subject to a standby fee of 8.5 basis points.

### 7. Year 2000

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the IMO, including those related to customers, suppliers, or other third parties, have been fully resolved.

### 8. Benefit Plans

The IMO provides pension and other employee future benefits, comprising group life insurance, long-term disability and group medical and dental plans, for the benefit of current and retired employees.

**Pension plans**

From April 1, 1999 to December 31, 1999, the IMO participated in the OEFC Pension Plan, a contributory defined benefit, registered pension plan formerly known as the Pension and Insurance Fund of Ontario Hydro. As part of the restructuring of the electricity industry in Ontario, the assets, liabilities and a share of the OEFC Pension Plan's surplus were notionally allocated to each of the successor entities of Ontario Hydro on April 1, 1999.

The Independent Electricity Market Operator Pension Plan (Plan) commenced on December 31, 1999 and assumed the IMO's share of the pension liabilities of the OEFC Pension Plan on January 1, 2000. The Plan is expected to receive assets from the OEFC Pension Plan in fiscal 2000.

In addition to the funded, registered, pension plan, the IMO provides certain non-registered defined benefit pensions through an unfunded, non-registered plan.

**Other employee future benefits**

The group life insurance, long-term disability and group medical and dental benefits are provided through unfunded, non-registered defined benefit plans.

**Summary of accrued benefit obligations and plan assets**

AS AT DECEMBER 31, 1999

| *(in thousands of Canadian dollars)* | Pension benefits | Other benefits |
|---|---|---|
| | $ | $ |
| Accrued benefit obligation | 164,688 | 14,645 |
| Fair value of plan assets | 228,025 | – |
| Funded status | 63,337 | (14,645) |
| Prepaid (accrued) benefit cost recognized in the statements of financial position | 15,778 | (17,987) |

**Summary of principal assumptions used to calculate benefit costs and obligations**

| | Pension benefits | Other benefits |
|---|---|---|
| Discount rate | 7.25% | 7.0%–7.5% |
| Expected return on plan assets | 7.25% | – |
| Rate of compensation increase | 3.5% | 3.5% |
| Rate of benefit increases | 2.5% | – |
| Average remaining service life of employees | 10.75 years | 10.75 years |

Hospital and drug costs are assumed to increase by 7.2% in 2000 and reduce to 4.5% after 3 years. Other medical and dental costs are assumed to increase by 3.5% to 4.5% per annum.

**Summary of benefit costs and plan contributions**

PERIOD ENDED DECEMBER 31, 1999

| *(in thousands of Canadian dollars)* | Pension benefits | Other benefits |
|---|---|---|
| | $ | $ |
| Benefit cost | 1,013 | 1,417 |
| Employer contributions | – | – |
| Plan participant's contributions | – | – |
| Benefits paid | 4, 500 | 2,186 |

**9. Segmented Information**

IMO consists of a single business engaged in the operation of the bulk electricity system in Ontario.

**10. Commitments**

**Operating commitments**

The obligations of the IMO with respect to non-cancellable operating leases over the next five years are as follows:

| *(in thousands of Canadian dollars)* | |
|---|---|
| | $ |
| 2000 | 1,659 |
| 2001 | 1,504 |
| 2002 | 1,029 |
| 2003 | 625 |
| 2004 | 558 |

**Capital commitments**

The IMO is committed to completing the project to provide infrastructure for the launch of the open market for electricity in Ontario as described in Note 3 (c). Financing from the Province of Ontario of $125 million has been secured for this purpose as described in Note 6, although costs are expected to exceed this amount. Costs from April 1, 1999 to December 31, 1999 were $75 million, of which $67 million has been capitalized. The ultimate costs to complete the project are subject to uncertainty. The ability of the IMO to complete the project is dependent upon the availability of future financing.

| ID | Cal Year | Sector | Employer | Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|---|---|---|---|
| | | | | *Please refer to the PSSD Guide before filling out this form* | | | | |
| 417235 | 1999 | Authorities | IMO | Anderson | David | Manager - Programming | $116,839.65 | $763.43 |
| 504623 | 1999 | Authorities | IMO | Baksi | Jim | Settlement Production Manager | $108,335.95 | $735.64 |
| 51823 | 1999 | Authorities | IMO | Bolden | John | Director - Info. Tech. & Services | $156,417.68 | $1,125.38 |
| 528192 | 1999 | Authorities | IMO | Brindley | Stuart | Manager, Emergency Preparedness | $123,132.89 | $783.67 |
| 71981 | 1999 | Authorities | IMO | Bucciarelli | Frank | Section Head - EIE | $101,650.76 | $493.12 |
| 265090 | 1999 | Authorities | IMO | Carson | Bill | Section Head - EIE | $133,800.92 | $593.37 |
| 328601 | 1999 | Authorities | IMO | Chiu | Wang | Sen. Engineer/Officer - Bus. Info. | $105,919.21 | $523.35 |
| 608405 | 1999 | Authorities | IMO | Chung | Simon | Sen. Engineer/Officer - Database | $123,205.64 | $516.30 |
| 692503 | 1999 | Authorities | IMO | Cooper | Steve | Sen. Exchange Engineer/Officer | $105,432.67 | $621.38 |
| 416101 | 1999 | Authorities | IMO | Cowbourne | Derek | Chief Operating Officer | $209,877.01 | $1,224.29 |
| 207004 | 1999 | Authorities | IMO | Fairchild | John | Exchange Coord.-Scheduling/RS | $112,334.61 | $568.17 |
| 207550 | 1999 | Authorities | IMO | Findlay | J. Al | Customer Relations Manager | $134,264.41 | $884.19 |
| 391370 | 1999 | Authorities | IMO | Fok | Silvester | Eng./Tech. Officer - Operations | $121,664.21 | $567.69 |
| 309890 | 1999 | Authorities | IMO | Fryer | Kathryn | HR Consultant | $101,247.23 | $348.43 |
| 542640 | 1999 | Authorities | IMO | Gibbons | Robert | Program Manager- Central Market | $103,506.37 | $743.49 |
| 495250 | 1999 | Authorities | IMO | Gike | Russell | Engineer/Officer - Shift Control | $116,051.45 | $577.25 |
| 415135 | 1999 | Authorities | IMO | Goulding | David | President & CEO | $383,457.84 | $1,995.20 |
| 508284 | 1999 | Authorities | IMO | Graham | Charlie | Manager - Market Operator Devt. | $133,140.21 | $802.94 |
| 988596 | 1999 | Authorities | IMO | Graham | Janice | Market Design Manager | $120,431.45 | $511.61 |
| 936166 | 1999 | Authorities | IMO | Harper | Harold | Quality Assurance Leader | $106,418.08 | $532.38 |
| 693686 | 1999 | Authorities | IMO | Hay | Lawrence | Shift Superintendent | $118,895.50 | $653.12 |
| 444934 | 1999 | Authorities | IMO | Henderson | Pete | Section Head - EF | $100,902.72 | $605.95 |
| 692531 | 1999 | Authorities | IMO | Hess | Tom | Shift Superintendent | $105,250.98 | $615.29 |
| 120183 | 1999 | Authorities | IMO | Indewey | Rick | Exchange Coord.-Scheduling/RS | $103,617.48 | $565.11 |
| 742952 | 1999 | Authorities | IMO | Jutras | James | Engineer/Officer - Systems | $109,124.08 | $516.30 |
| 436114 | 1999 | Authorities | IMO | Kalinovich | Mike | Engineer/Officer - Shift Control | $110,313.99 | $558.81 |
| 225911 | 1999 | Authorities | IMO | Kim | Jong | Market Operator Devt. Program Off. | $138,094.24 | $328.69 |
| 566811 | 1999 | Authorities | IMO | Klahsen | Peter | Engineer/Officer - Shift Control | $108,250.91 | $555.50 |
| 297262 | 1999 | Authorities | IMO | Kot | John | Sen. Engineer/Officer - Systems | $144,755.05 | $537.24 |
| 497560 | 1999 | Authorities | IMO | Kozlik | Ken | Settlement Devt. & Information | $127,526.83 | $790.78 |
| 38390 | 1999 | Authorities | IMO | Laidlaw | George | Director - Legal & Corporate Affairs | $136,634.47 | $333.96 |
| 542696 | 1999 | Authorities | IMO | Lee | Don | Chief Information Officer | $146,459.57 | $903.20 |
| 931203 | 1999 | Authorities | IMO | Lee | Frank | Sen. Engineer/Officer - Database | $106,984.91 | $520.13 |
| 554974 | 1999 | Authorities | IMO | Leonard | Ted | Finance Support & Systems Manager | $102,952.80 | $706.21 |
| 225813 | 1999 | Authorities | IMO | Li | Ben | Manager - Systems Capability | $147,933.87 | $848.03 |
| 177821 | 1999 | Authorities | IMO | Lyn | Tyrone | Sen. Engineer/Officer - Systems | $110,566.48 | $517.60 |
| 352093 | 1999 | Authorities | IMO | Maguire | Danny | Exchange Coord.-Scheduling/RS | $103,072.66 | $560.90 |
| 74116 | 1999 | Authorities | IMO | Malik | Yasin | Manager Enterprise Infrastructure | $140,956.91 | $608.68 |
| 608132 | 1999 | Authorities | IMO | Malo | Adrian | Sen. Exchange Engineer/Officer | $103,535.30 | $637.45 |

| ID | Cal Year | Sector | Employer | Surname | Given Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|---|---|---|---|---|
| | *Please refer to the PSSD Guide before filling out this form* | | | | | | | |
| 78575 | 1999 | Authorities | IMO | Maria | Gamal | Acting Manager - Info. Technical | $114,882.57 | $781.82 |
| 540211 | 1999 | Authorities | IMO | Marx | Michael | Exchange Coord.-Scheduling/RS | $100,559.64 | $527.29 |
| 269500 | 1999 | Authorities | IMO | McLellan | Gary | Shift Superintendent | $108,362.69 | $570.95 |
| 618282 | 1999 | Authorities | IMO | McVeety | Michael | Exchange Coord.-Scheduling/RS | $106,372.08 | $558.81 |
| 96383 | 1999 | Authorities | IMO | Meyer | Garry | Exchange Coord.-Scheduling/RS | $106,046.50 | $568.17 |
| 384104 | 1999 | Authorities | IMO | Miller | Allan | Sen. Exchange Engineer/Officer | $100,327.10 | $619.44 |
| 380065 | 1999 | Authorities | IMO | Murphy | Paul | Vice President, Market Eff. & Evolution | $217,901.46 | $1,144.85 |
| 497693 | 1999 | Authorities | IMO | Noble | Kerry | Section Head - EIE | $103,554.54 | $563.69 |
| 531195 | 1999 | Authorities | IMO | Pettitt | Bill | Sen. Technical Officer - Operations | $105,056.57 | $549.23 |
| 454762 | 1999 | Authorities | IMO | Phillips | Drew | Senior Training Supervisor | $100,694.00 | $599.68 |
| 438172 | 1999 | Authorities | IMO | Porteous | Scott | Sen. Exchange Engineer/Officer | $104,406.21 | $615.08 |
| 325682 | 1999 | Authorities | IMO | Sardana | Pankaj | Treasury Manager | $104,174.04 | $502.04 |
| 612556 | 1999 | Authorities | IMO | Schmidt | Daniel | Manager - Systems Operations | $118,281.77 | $633.33 |
| 517181 | 1999 | Authorities | IMO | Sergejewich | Peter | Market Design Manager | $134,102.73 | $815.43 |
| 266903 | 1999 | Authorities | IMO | Stanbury | Al | Supv. Eng. - Wholesale Stmt. Mt. | $103,731.99 | $561.18 |
| 722841 | 1999 | Authorities | IMO | Stevens | Chris | Director Settlements | $149,910.50 | $882.96 |
| 37933 | 1999 | Authorities | IMO | Stubbert | Dave | Shift Superintendent | $104,696.26 | $631.16 |
| 179823 | 1999 | Authorities | IMO | Tench | Don | Acting Manager - Systems Capability | $115,183.50 | $763.43 |
| 38392 | 1999 | Authorities | IMO | Thomas | Douglas | Chief Financial Officer | $140,964.39 | $948.18 |
| 37302 | 1999 | Authorities | IMO | Thomas | Norman | Director, Human Resources | $134,101.36 | $923.40 |
| 213990 | 1999 | Authorities | IMO | Vert | James | Exchange Coord.-Scheduling/RS | $106,672.10 | $553.26 |
| 608104 | 1999 | Authorities | IMO | Williams | Ralph | Shift Superintendent | $114,650.73 | $643.76 |
| 49343 | 1999 | Authorities | IMO | Wilson | Donald | Shift Superintendent | $119,983.13 | $601.52 |
| 262745 | 1999 | Authorities | IMO | Wilson | Mark | Shift Superintendent | $111,331.36 | $578.33 |
| 285551 | 1999 | Authorities | IMO | Ziegler | Barry | Shift Superintendent | $120,340.17 | $671.58 |

LEGAL AID ONTARIO
AIDE JURIDIQUE ONTARIO

## Management's Responsibility for Financial Information

Management and the Board of Directors are responsible for the financial statements and all other information presented in the Annual Report. The financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on management's best estimates and judgements.

Legal Aid Ontario is dedicated to the highest standards of integrity in provision of its services. Management has developed and maintains financial controls, information systems and practices to provide reasonable assurances of the reliability of financial information and that the assets were safeguarded.

The Board ensures that management fulfils its responsibilities for financial information and internal control through an Audit and Finance Committee of the Board. The Board meets monthly to oversee the financial activities of LAO. On an annual basis, the Board reviews the financial statements and the external auditors' report thereon, and recommend them to the Ministry of the Attorney General.

The financial statements have be been examined by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination.

Honorable, Sidney Linden
Chair & Acting President & CEO

Michelle A. Séguin
Vice President,
Corporate Services

August 17, 2000

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

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***Auditor's Report***

To Legal Aid Ontario
and to the Attorney General of Ontario

I have audited the balance sheet of Legal Aid Ontario as at March 31, 2000 and the statements of operations and accumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of Legal Aid's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of Legal Aid Ontario as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Toronto, Ontario
June 30, 2000

J.R. McCarter, CA
Assistant Provincial Auditor (Acting)

## Legal Aid Ontario
## (A Corporation Without Share Capital)
## Balance Sheet

**March 31, 2000**

| | | (000's) |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash and cash equivalents (Note 3) | $ | 72,814 |
| Accounts receivable (less allowance for doubtful accounts) | | 13,883 |
| Prepaid expenses | | 31 |
| | | 86,728 |
| **Contingency reserve fund** (Note 7) | | 24,938 |
| **Capital assets** (Note 4) | | 7,427 |
| | $ | 119,093 |
| **Liabilities and Equity** | | |
| **Current** | | |
| Accounts payable and accrued liabilities (Note 5) | $ | 52,864 |
| **Equity** | | |
| Accumulated surplus (Note 6) | | 41,291 |
| Contingency reserve (Note 7) | | 24,938 |
| | | 66,229 |
| | $ | 119,093 |

On behalf of the Board:

Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## Legal Aid Ontario
## (A Corporation Without Share Capital)
## Statement of Operations and Accumulated Surplus

**For the year ended March 31, 2000**

| | |
|---|---|
| **Revenue** | |
| | **(000's)** |
| Province of Ontario (Note 2) | $ 230,992 |
| The Law Foundation of Ontario | 21,496 |
| Client contributions | 9,428 |
| Judgements, costs and settlements | 1,379 |
| Miscellaneous income | 5,244 |
| | 268,539 |
| **Expenses** | |
| Core Business | |
| Certificate Program (Note 2) | |
| Criminal | 62,214 |
| Family | 34,151 |
| Immigration and refugee | 10,083 |
| Other civil | 4,995 |
| Settlement conferences | 227 |
| | 111,670 |
| Area office services | 18,010 |
| | 129,680 |
| Duty Counsel Program | |
| Duty counsel fees and disbursements | 16,069 |
| Clinic Program | |
| Clinic law services (Note 8) | 38,259 |
| Alternative Programs | |
| Nishnawbe-Aski allocation | 1,280 |
| OFIFC funding | 76 |
| Family law / pilot projects | 2,219 |
| Refugee law office | 688 |
| Salaried duty counsel | 2,700 |
| Student legal aid societies | 2,540 |
| | 9,503 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## Legal Aid Ontario
## (A Corporation Without Share Capital)
## Statement of Operations and Accumulated Surplus
## (Continued)

**For the year ended March 31, 2000**

| | | |
|---|---|---|
| **Expenses** | | |
| | | (000's) |
| Service Provider Support | | |
| Research facility | $ | 1,955 |
| Clinic resource facility | | 890 |
| Quality assurance program | | 398 |
| | | 3,243 |
| Administrative | | |
| Provincial office | | 21,899 |
| Non-refundable goods and services tax | | 737 |
| Transition costs | | 242 |
| Year 2000 costs | | 920 |
| | | 23,798 |
| | | 220,552 |
| **Excess of revenue over expenses** | | 47,987 |
| **Transferred to contingency reserve** (Note 7) | | (6,696) |
| **Excess of revenue over expenses for the year and accumulated surplus, end of year** | $ | 41,291 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

# Legal Aid Ontario
## (A Corporation Without Share Capital)
## Statement of Cash Flows

**For the year ended March 31,2000**

| | | (000's) |
|---|---|---|
| **Cash was provided by (used in)** | | |
| **Operating activities** | | |
| Excess of revenue over expenses for the year | $ | 47,987 |
| Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities | | |
| Amortization | | 4,888 |
| Loss on sale of capital assets | | 146 |
| Changes in non-cash working capital balances | | |
| Accounts receivable | | 6,386 |
| Prepaid expenses | | 15 |
| Accounts payable and accrued liabilities | | (20,640) |
| | | 38,782 |
| **Investing activities** | | |
| Proceeds on sale of capital assets | | 23 |
| Purchase of capital assets | | (5,687) |
| | | (5,664) |
| **Net increase in cash and cash equivalents during year** | | 33,118 |
| **Cash and cash equivalents**, beginning of year (Note 1) | | 64,634 |
| **Cash and cash equivalents**, end of year | $ | 97,752 |
| Represented by | | |
| Cash equivalents | $ | 77,081 |
| Bank indebtedness | | (4,267) |
| | | 72,814 |
| Contingency reserve fund | | 24,938 |
| | $ | 97,752 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

# Legal Aid Ontario
## (A Corporation Without Share Capital)
## Summary of Significant Accounting Policies

**March 31, 2000**

**Basis of Accounting**

The financial statements have been prepared in accordance with generally accepted accounting principles.

**Revenue Recognition**

Revenue is recorded on the basis of amounts contributed to the Corporation for the respective fiscal year ended March 31.

**Expense Recognition**

Expenses are recognized on an accrual basis. Legal accounts include amounts billed to the Corporation by lawyers and an estimate of amounts for work performed but not yet billed.

**Capital Assets**

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on the straight line basis over the estimated useful life of the asset as follows:

| | |
|---|---|
| Furniture and office equipment | - 5 years |
| Computer hardware and software | - 3 years |
| Custom-designed software | - 5 years |
| Leasehold improvements | - over the term of lease |

**Use of Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand, indebtedness and balances with banks plus highly liquid investments with original maturities of three months or less.

**Financial Instruments**

Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest rate, currency or credit risks arising from its financial instruments.

# Legal Aid Ontario
# (A Corporation Without Share Capital)
# Notes to Financial Statements

**March 31, 2000**

## 1. Creation of Legal Aid Ontario

On December 18, 1998, the Ontario Legislative Assembly enacted the Legal Aid Services Act, 1998 whereby Legal Aid Ontario (the "Corporation") was incorporated without share capital under the laws of Ontario. The Corporation began operations on April 1, 1999.

The Legal Aid Services Act, 1998 establishes the following mandate for the Corporation:

- To promote access to justice throughout Ontario for low-income individuals by providing high quality legal aid services
- To encourage and facilitate flexibility and innovation in the provision of legal aid services
- To recognize the diverse legal needs of low-income individuals and disadvantaged communities
- To operate within a framework of accountability for the expenditure of public funds

The affairs of the Corporation are governed and managed by eleven Board of Directors appointed by the Lieutenant Governor in Council. While the Corporation operates independently from the Province of Ontario and the Law Society of Upper Canada, it is accountable for the expenditure of public funds and for the provision of legal aid services in a manner that both meets the needs of low-income individuals and is cost-effective and efficient.

On April 1, 1999, the Corporation assumed responsibility of all the assets and liabilities for the Ontario Legal Aid Plan formerly administered by the Law Society of Upper Canada.

The net assets transferred from the Ontario Legal Aid Plan are as follows:

| | (000's) |
|---|---|
| Cash | $ 64,634 |
| Other current assets | 20,315 |
| Capital assets | 6,797 |
| Total assets | 91,746 |
| Total accounts payable and accrued liabilities | (73,504) |
| Net assets transferred (Note 7) | $ 18,242 |

## 2. Funding by the Province of Ontario

Section 71 of the Legal Aid Services Act, 1998 requires the Corporation and the Province of Ontario Attorney General to enter into a Memorandum of Understanding ("MOU") every five years. The purpose of the MOU is to clarify the operational, administrative, financial, and other relationships between the Attorney General and the Corporation.

## Legal Aid Ontario
## (A Corporation Without Share Capital)
## Notes to Financial Statements

March 31, 2000

**2. Funding by the Province of Ontario (continued)**

In the 1999 - 2000 fiscal year, the Corporation received $230 million from the Province of Ontario. The Province has indicated that this level of funding would also apply to the next two fiscal years. The first MOU between the Corporation and the Province of Ontario had not, as at June 30, 2000, been signed by the respective parties.

(a) Funding in respect of the year was allocated as follows:

| | 2000 |
|---|---|
| | (000's) |
| Certificates (issued by the Corporation to solicitors that authorize legal services to be provided) | $ 166,847 |
| Administration | 28,544 |
| Independent Community Clinics | 35,085 |
| Family Violence | 516 |
| | $ 230,992 |

(b) Included in the revenue from the Province of Ontario for the year ended March 31, 2000 is an amount of $36.2 million. This represents an allocation of funds from a lump sum transfer by the Federal Government to the Province in connection with criminal law and the Young Offenders Act through a cost-sharing arrangement.

**3. Cash and Cash Equivalents**

| | 2000 |
|---|---|
| | (000's) |
| Cash equivalents | $ 77,081 |
| Bank indebtedness | (4,267) |
| | 72,814 |

The Corporation has developed an investment policy in accordance with the statutory requirements outlined in Sections 7(1), 7(2), 7(3) and 7(4) of Ontario Regulation 107/99 made under the Legal Aid Services Act, 1998. The short term investments held by the Corporation as at March 31, 2000 are in compliance with the statutory requirements.

The Corporation holds treasury certificates, term deposits and banker acceptances of $77 million which will mature in 2000 and bear interest between 5.03% and 5.3% per annum.

## Legal Aid Ontario
## (A Corporation Without Share Capital)
## Notes to Financial Statements

**March 31, 2000**

### 4. Capital Assets

| | 2000 | |
|---|---|---|
| | Cost | Accumulated Amortization |
| | (000's) | |
| Furniture and office equipment | $ 2,056 | $ 600 |
| Computer hardware and software | 7,446 | 3,627 |
| Custom-designed software | 817 | 186 |
| Leasehold improvements | 1,996 | 475 |
| | $ 12,315 | $ 4,888 |
| Net book value | | $ 7,427 |

### 5. Accounts Payable and Accrued Liabilities

| | 2000 |
|---|---|
| | (000's) |
| Legal accounts - billings received | $ 7,887 |
| - work performed but not yet billed | 40,039 |
| Rent inducements | 804 |
| Trade and other payables | 3,494 |
| Vacation pay | 640 |
| | $ 52,864 |

During the year, management undertook to improve the estimate of accrued liability on work conducted by private solicitors but not yet been billed to the Corporation. Solicitors were required to bill for all work on certificates issued before April 1 ,1999 by December 31, 1999 if no interim accounts had been submitted after April 1, 1999 and if the value of the outstanding work was over $50. The solicitors were also required to identify inactive certificates.

As a result of this exercise, the accounts payable and accrued liabilities were reduced by approximately $20 million along with the cancellation of approximately 55,000 outstanding certificates.

At year end, management estimates the liability for work conducted by private solicitors that has not yet been billed by these solicitors to the Corporation to be $40.039 million . This estimate uses a methodology that incorporates average costs and time frames for similar cases over a period of 7 years.

Due to the uncertainty involved in the estimation process, there will likely be a difference between the estimated and actual liability. In the opinion of management the actual liability will fall within a range of plus 20% to minus 20% ($32 million to $48 million). Any adjustment of the estimated liability would result in a corresponding increase or decrease in expenses for "core business", the "excess of revenue over expenses for the year" and the "accumulated surplus".

# Legal Aid Ontario
## (A Corporation Without Share Capital)
## Notes to Financial Statements

March 31, 2000

### 6. Accumulated Surplus

Subsection 66(3) of the Legal Aid Services Act, 1998 allows the Corporation to allocate any surplus or deficit in a fiscal year to either or both of the two subsequent fiscal years with the approval of the Attorney General, unless under Subsection 69(2) ordered by the Minister of Finance to pay its surplus into the Consolidated Revenue Fund. For the fiscal year ending 2000, the Board of the Corporation has retained all of its accumulated surplus.

### 7. Contingency Reserve

Under the Ontario Regulation 107/99 made under the Legal Aid Services Act, 1998, the Corporation is required to maintain a $20 million contingency reserve. Section 6 of the regulation also allows the reserve to be increased by interest earned. The contingency reserve is made up as follows:

| | 2000<br>(000's) |
|---|---|
| Net Assets transferred to the Corporation April 1, 1999 (Note 1) | $ 18,242 |
| Transfer to contingency reserve from operations | 6,696 |
| Balance March 31, 2000 | $ 24,938 |

The contingency reserve fund consists of a treasury certificate which will mature in 2000 and bears interest at 5.03% per annum.

### 8. Funding of Independent Community Clinics

This programme provides for payment of funds to clinics enabling them to provide legal or paralegal services on a basis other than fee for service.

The total consists of:

| | 2000<br>(000's) |
|---|---|
| Payments to and on behalf of clinics | $ 34,433 |
| Administrative costs | 3,826 |
| | $ 38,259 |

# Legal Aid Ontario
# (A Corporation Without Share Capital)
# Notes to Financial Statements

**March 31, 2000**

## 9. Commitments

Effective April 1, 1999, the following commitments have been be assumed by the Corporation (see Note 1).

(a) Each certificate issued authorizes legal services to be performed within the tariff guidelines. At March 31, 2000 there is an amount of approximately $70 million that could still be incurred on certificates over and above the billings received to date and the Corporation's estimate of work performed but not yet billed.

(b) the Corporation leases various office premises and equipment throughout the Province. The minimum annual commitments under these leases for the next five years are approximately as follows:

| | Amount<br>(000's) |
|---|---|
| 2001 | $ 5,246 |
| 2002 | 4,961 |
| 2003 | 4,361 |
| 2004 | 1,795 |
| 2005 | 453 |
| | $ 16,816 |

## 10. Pensions

Effective April 1, 1999, the Corporation offered employment to all members of the Law Society of Upper Canada ("LSUC") Employees' Pension Plan who had been employed in the area of legal aid and who had accepted employment with the Corporation. At its meeting on April 16, 2000, the Board of the Corporation approved the establishment of a pension plan consisting of a defined contribution component and a defined benefit component for the employees of the Corporation as of April 1, 1999. Concurrently, the Corporation and the LSUC entered into an agreement dated April 16, 2000 which transferred all the pension assets and liabilities for those transferred members which had accrued up to but excluding April 1, 1999 under the LSUC Employees' Pension Plan.

The Corporation makes pension contributions to the defined contribution component of the plan. The Corporation's financial obligation to the defined contribution component of the plan is limited to making regular payments to match the amounts contributed by the employees for current service. The Corporation's annual pension expense for the year was $739,900.

The defined benefit component of the plan is subject to actuarial valuations at intervals of not more than three years. The most recent actuarial valuation was made upon transfer of the plan as at April 1, 1999. The pension plan at that time had an excess actuarial surplus of $564,300, pension obligation of $1,231,000 and plan assets of $1,795,300.

1999 Salaries Taxable Benefits

[illegible]

| Employer | Surname | Given Name | Position | 1999 Salary Paid | Taxable Benefits |
|---|---|---|---|---|---|
| Legal Aid Ontario | Biggar | George A | Vice President, Legal Services | 115,466.75 | 545.72 |
| Legal Aid Ontario | Holden | Robert | President & CEO | 130,466.67 | 614.4 |
| Legal Aid Ontario | Kuras | Joana | Vice President, Clinic Program & Planning | 121,888.23 | 525.2 |
| Legal Aid Ontario | Lawson | Ruth | Vice President, Appeals | 114,450.96 | 538.82 |
| Legal Aid Ontario | McCalmont | Joseph | Director of Finance, Clinic Funding Office | 98,769.16 | 7207.33 |
| Legal Aid Ontario | Wilkins | Keith | Co-ordinator of Client Services | 100,205.04 | 475.24 |

I certify that the information provided on this record is correct in accordance with the Public Sector Salary Disclosure Act, 1996

| Name | Position Title |
|---|---|
| Cheryl Davis | Supervisor, Payroll & Benefits |

| Phone Number | Date |
|---|---|
| 416-204-4717 | March 9, 2000 |

NORTHERN ONTARIO
HERITAGE FUND
CORPORATION
SOCIÉTÉ DE GESTION DU
FONDS DU PATRIMOINE
DU NORD DE L'ONTARIO

**Management's Responsibility for Financial Information**

Management and the Board of Directors are responsible for the financial statements and all other information presented in the Annual Report. The financial statements have been prepared by Management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on Management's best estimates and judgement.

The Northern Ontario Heritage Fund Corporation is dedicated to the highest standard of integrity in its business. To safeguard the Corporation's assets and assure the reliability of financial information, the Corporation follows sound management practices and maintains appropriate information systems and internal financial controls. Internal audits are conducted to assess management systems and practices.

The Board of Directors ensures that Management fulfills its responsibilities for financial information and internal controls. The Board of Directors meets regularly to review the activities of the Corporation, its operating results and financial position as shown in the monthly auditor prepared financial statements.

The year end financial statements have been examined by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly represented in accordance with generally accepted accounting principles. The Auditor's report outlines the scope of the Auditor's examination and opinion.

Royal Poulin
General Manager.

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

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***Auditor's Report***

To the Northern Ontario Heritage Fund Corporation
and to the Minister of Northern Development and Mines

I have audited the balance sheet of the Northern Ontario Heritage Fund Corporation as at March 31, 2000 and the statements of receipts and expenses and net investment by the Province of Ontario and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Toronto, Ontario
June 7, 2000

J.R. McCarter, CA
Assistant Provincial Auditor (Acting)

# NORTHERN ONTARIO HERITAGE FUND CORPORATION

## Balance Sheet
## As at March 31, 2000

| | 2000<br>($000's) | 1999<br>($000's) |
|---|---|---|
| **Assets** | | |
| Cash and short-term deposits (Note 3) | 191,896 | 205,791 |
| Accrued interest | 4,627 | 5,065 |
| Loans receivable (Note 4) | 22,150 | 19,882 |
| | 218,673 | 230,738 |
| **Liabilities** | | |
| Provision for guarantee losses | 550 | 142 |
| Commitments and contingencies (Note 7) | | |
| **Investment by the Province of Ontario** | | |
| Net investment by the Province of Ontario | 218,123 | 230,596 |
| | 218,673 | 230,738 |

See accompanying notes to financial statements.

On behalf of the Board

Chairperson

Director

# NORTHERN ONTARIO HERITAGE FUND CORPORATION

## Statement of Receipts and Expenses and Net Investment by the Province of Ontario
## For the Year Ended March 31, 2000

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| **Receipts** | | |
| Province of Ontario grant | | |
| - operating | 30,000 | 30,000 |
| - administration (Note 6) | 556 | 449 |
| Interest income | 11,070 | 10,845 |
| Interest on loans receivable | 1,607 | 1,358 |
| Other | — | 834 |
| | 43,233 | 43,486 |
| **Expenses** | | |
| Grants | 42,090 | 13,415 |
| Forgivable loans | 10,583 | 11,106 |
| Credit and investment losses, net of recoveries (Note 5) | 2,347 | 3,721 |
| Interest subsidy payments | - | 5 |
| Administration (Note 6) | 686 | 911 |
| | 55,706 | 29,158 |
| Excess (deficiency) of receipts over expenses | (12,473) | 14,328 |
| **Net Investment by the Province of Ontario, beginning of year** | 230,596 | 219,213 |
| **Adjustment for loan discounting in prior years** [Note 1(c)] | — | (2,945) |
| **Net Investment by the Province of Ontario, end of year** | 218,123 | 230,596 |

See accompanying notes to financial statements.

## NORTHERN ONTARIO HERITAGE FUND CORPORATION

### Statement of Cash Flows
### For the Year Ended March 31, 2000

| | 2000<br>($000's) | 1999<br>($000's) |
|---|---|---|
| **Lending, Investing and Financial Assistance Activities** | | |
| Loan disbursements | (8,214) | (4,306) |
| Loan repayments and recoveries | 2,601 | 5,581 |
| Grants and forgivable loans | (50,425) | (23,087) |
| Loan guarantees honoured and interest subsidy payments | - | (5) |
| Interest collected on loans receivable | 554 | 755 |
| Other | - | (89) |
| | (55,484) | (21,151) |
| **Financing Activities** | | |
| Cash contributions from the Province for: | | |
| Lending and financial assistance activities | 30,000 | 30,000 |
| Administration | 556 | 449 |
| | 30,556 | 30,449 |
| **Operating Activities** | | |
| Interest received on short-term deposits | 11,719 | 8,759 |
| Administration costs | (686) | (911) |
| | 11,033 | 7,848 |
| **Increase (decrease) in cash and short-term deposits** | (13,895) | 17,146 |
| **Cash and short-term deposits, beginning of year** | 205,791 | 188,645 |
| **Cash and short-term deposits, end of year** | 191,896 | 205,791 |

See accompanying notes to financial statements.

# NORTHERN ONTARIO HERITAGE FUND CORPORATION

## Notes to Financial Statements
## March 31, 2000

### 1. BACKGROUND

The Corporation was established, without share capital, on June 1, 1988 under the *Northern Ontario Heritage Fund Act*. The purpose of the Corporation is to encourage growth and diversification of the economy of Northern Ontario by providing financial assistance by way of grants, loans or guarantee of loans made by other lenders.

As announced in the *1996 Ontario Budget*, the operations of the Corporation were refocused, commencing in fiscal year 1997, to fund infrastructure improvements and economic development opportunities in Northern Ontario by way of conditional contributions, forgivable performance loans, incentive term loans and loan guarantees.

In the May 2000 Budget, the Minister of Finance announced a renewed mandate to the Corporation, doubling the annual funding to $60,000,000.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared by management. The significant accounting policies used to prepare these statements are summarized below.

(a) **Basis of Accounting**
The financial statements have been prepared using the accrual method of accounting.

(b) **Transactions with the Province**
The Province contributes funds to finance the lending and financial assistance activities and reimburses the Corporation for certain administration expenses. The Province's investment is reduced by the net cost of operations.

(c) **Loans Receivable**
Loans receivable are stated at their estimated net realizable value. Commencing April 1, 1998, interest-free loans are discounted at the average provincial borrowing rate to determine the present value of the loan. The difference between the face value of the loan and its present value is in substance, a grant, and is recognized as grants expense in the year when the loan is made. The amount of the loan discount is amortized to interest revenue over the term of the loan.

(d) **Provision of Guarantee and Credit Losses**
Credit losses arise on loans receivable and guarantees issued to other lenders by the Corporation. In addition to specific write-offs and write-downs, a provision for credit losses is maintained in an amount considered adequate to absorb anticipated credit-related losses. The provision for losses on loans consists of provisions on specific loans and a general provision, and is deducted from loans receivable.

# NORTHERN ONTARIO HERITAGE FUND CORPORATION

## Notes to Financial Statements

**March 31, 2000**

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(d) Provision of Guarantee and Credit Losses (continued)**

The general provision for the losses on guarantees is included in liabilities. General provisions are established based on part of the historical loss ratios of the Corporation reduced by specific write-offs and write-downs taken.

The amounts written off and written down in the year, net of realized recoveries of amounts written off and written down in prior years, and changes in provisions are charged to credit and investment losses in the Statement of Receipts and Expenses.

**(e) Revenue Recognition**

Interest income is recognized on the accrual basis.

**(f) Forgivable Loans**

Generally, loans are forgiven on condition that the borrower has met certain requirements after the loan is disbursed. The Corporation expenses forgivable loans disbursed.

**(g) Guarantees**

Guarantee losses in the Statement of Receipts and Expenses include provisions and are net of recoveries on guarantees previously honoured.

**(h) Use of Estimates**

Preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

### 3. CASH AND SHORT-TERM DEPOSITS

The *Northern Ontario Heritage Fund Act* restricts investments to securities issued or guaranteed by the provinces, Canada, United States, United Kingdom, the International Bank for Reconstruction and Development and any Canadian Schedule I or II bank, and other investments as authorized by the Lieutenant Governor in Council.

The Corporation, through an Investment Management Agreement with the Ontario Financing Authority, invests excess funds in guaranteed securities as restricted by the *Northern Ontario Heritage Fund Act*.

## NORTHERN ONTARIO HERITAGE FUND CORPORATION

## Notes to Financial Statements

**March 31, 2000**

### 3. CASH AND SHORT-TERM DEPOSITS (CONTINUED)

Cash and short-term investments consist of:

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| Cash (cheques issued in excess of funds on deposit) | (1,966) | 6,668 |
| Treasury bills maturing in 90 days or less | 61,800 | 7,239 |
| Treasury bills with a maturity of more than 90 days but less than 365 days | 132,062 | 191,884 |
| | 191,896 | 205,791 |

The treasury bills yielded 3.9% on average (1999 – 5%) and have a market value that approximates carrying value.

### 4. LOANS RECEIVABLE

Since April 1998, the Corporation has engaged a private sector asset management company to manage some of the Corporation's loans and guarantee portfolios.

Generally, loans bear fixed interest rates ranging from 0% to 12.5%. Loans are long-term in nature, with interest free periods of up to five years. Principal repayments can also be deferred for up to five years. All loans are fully repayable within 20 years from the date disbursed.

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| Current | 4,828 | 1,895 |
| Long-term | 28,690 | 25,788 |
| Provision for credit losses | (6,976) | (4,817) |
| Loan discount | (4,392) | (2,984) |
| | 22,150 | 19,882 |

The changes in the loan discount balances are as follows:

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| Balance, beginning of year | 2,984 | 1,931 |
| Add: Amount of loan discount charged to grant expense | 2,249 | 1,497 |
| Less: Amount amortized to loan interest revenue | (841) | (444) |
| Balance, end of year | 4,392 | 2,984 |

# NORTHERN ONTARIO HERITAGE FUND CORPORATION

## Notes to Financial Statements

**March 31, 2000**

### 5. CREDIT AND INVESTMENT LOSSES

Credit and investment losses shown in the Statement of Receipts and Disbursements are net of recoveries as follows:

| | Loans ($000's) | Guarantees ($000's) | Total 2000 ($000's) |
|---|---|---|---|
| Write-downs/guarantees honoured | 117 | - | 117 |
| Less recoveries | (337) | - | (337) |
| Increase in general provision | 2,159 | 408 | 2,567 |
| Net expenses – 2000 | 1,939 | 408 | 2,347 |
| Net expenses and recoveries – 1999 | 4,579 | (858) | 3,721 |

### 6. ADMINISTRATION

Certain costs of administration such as salaries and benefits of regular employees, their travel, other standard government supplies and accommodation costs are borne by the Province through the Ministry of Northern Development and Mines. All other costs are borne by the Corporation. Details are as follows:

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| Salaries and benefits | 480 | 376 |
| Transportation and communications | 136 | 214 |
| Services | 57 | 314 |
| Supplies and equipment | 13 | 7 |
| | 686 | 911 |
| Less: expenses borne by the Province | 556 | 449 |
| Expenses borne by the Corporation | 130 | 462 |

The Corporation provides pension benefits for all its permanent staff through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension fund established by the Province of Ontario. The Corporation's share of contributions to the Fund during the year was $23,329 (1999: $17,069) and is included in salaries and benefits.

### 7. COMMITMENTS AND CONTINGENCIES

(a) The Corporation guarantees the repayment of certain loans made by private sector financial institutions to qualifying Ontario businesses. As at March 31, 2000 the Corporation's contingent liability under guarantees was $550,000 (1999 - $146,624). Commitments to guarantee loans not yet advanced amounted to $NIL (1999 - $853,376). The accounting for guarantee losses is described in Note 2(g).

# NORTHERN ONTARIO HERITAGE FUND CORPORATION

## Notes to Financial Statements

**March 31, 2000**

### 8. COMMITMENTS AND CONTINGENCIES (continued)

(b) Funds committed but not disbursed as at March 31, 2000 amounted to:

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| Grants | 99,962 | 13,244 |
| Forgivable loans | 10,405 | 50,174 |
| Repayable loans | 22,227 | 26,837 |
| Total commitments | 132,594 | 90,255 |

### 9. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

TVOntario

## Management's Responsibility for Financial Statements

The accompanying financial statements have been prepared by management in accordance with generally accepted accounting principles, and in accordance with the accounting policies described in Note 2 to the financial statements. Where estimates or judgements have been required, management has determined such amounts on a reasonable basis in conformity with generally accepted accounting policies.

Management is responsible for all information in the financial statements and has certified that all information connected with the financial statements has been provided to the Provincial Auditor.

To assist management in the discharge of its responsibilities, TVOntario maintains internal controls that are designed to provide reasonable assurance that its assets are safeguarded, to enable only valid and authorized transactions, and to ensure that accurate, timely, and comprehensive financial information is prepared.

TVOntario has an internal audit unit whose functions include reviewing and commenting on internal control.

The TVOntario Board of Directors is responsible for ensuring that management fulfills its responsibilities. The Board has appointed an audit committee from among its own members. The audit committee meets periodically with management, including the director, Internal Audit, and the Provincial Auditor, to discuss audit, internal control, accounting policy, and financial reporting matters. The financial statements were reviewed jointly by the audit and finance committees before approval by the Board of Directors.

The Provincial Auditor conducts an annual audit in accordance with Section II of the Ontario Educational Communications Authority Act. The auditor's report outlines the scope of the auditor's examination and opinion.

Lee robock

Lee Lorraine Robock
Director, Finance and Administration
and Chief Financial Officer
June 2, 2000

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Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

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***Auditor's Report***

To The Ontario Educational Communications Authority
and the Minister of Training, Colleges and Universities

I have audited the statement of financial position of The Ontario Educational Communications Authority as at March 31, 2000 as well as the statement of operations and equity, the statement of changes in equity and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Erik Peters

Toronto, Ontario
June 2, 2000

Erik Peters, FCA
Provincial Auditor

## THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY

### Statement of Financial Position
as at March 31, 2000

| Assets | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| **Current Assets** | | |
| Cash and short-term investments (note 3) | 5,613 | 5,101 |
| Accounts receivable (note 4) | 5,645 | 5,192 |
| Inventories | 641 | 588 |
| Prepaid expenses | 747 | 1,051 |
| Deferred pension charges (note 5) | 2,802 | 2,074 |
| | **15,448** | **14,006** |
| **Investments held for Capital Renewal (note 7)** | **9,538** | **8,685** |
| **Net Capital Assets (note 6)** | **17,389** | **20,361** |
| **Total Assets** | **42,375** | **43,052** |
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | 7,074 | 6,988 |
| Deferred revenue (note 8) | 209 | 311 |
| Lease obligations (note 9) | 198 | 192 |
| | 7,481 | 7,491 |
| **Non Current Liabilities** | | |
| Lease obligations (note 9) | 271 | 208 |
| Deferred capital contributions (note 10) | 22,463 | 24,279 |
| | 22,734 | 24,487 |
| **Equity** | | |
| Invested in capital assets | 3,995 | 4,367 |
| Restricted - Deferred pension charges (note 5) | 2,802 | 2,074 |
| Unrestricted | 5,363 | 4,633 |
| | 12,160 | 11,074 |
| **Total Liabilities and Equity** | **42,375** | **43,052** |

See accompanying notes to financial statements.

On behalf of the Board:

Isabel Bassett
Chairman

Director

# THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY
## Statement of Operations and Equity
## for the year ended March 31, 2000

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| **Revenues** | | |
| Government grants and funding (note 11) | 51,313 | 50,632 |
| TVOntario generated gross revenue (note 12) | 16,155 | 17,509 |
| Amortization of deferred capital contributions (note 10) | 2,948 | 3,920 |
| Capital revenue and renewal fund, net | 245 | 702 |
| Deferral of pension charges (note 5) | 728 | 875 |
| | 71,389 | 73,638 |
| **Expenses** | | |
| Network activities (note 13) | 51,394 | 49,579 |
| Cost of generated revenue (note 12) | 6,658 | 7,780 |
| Administrative services | 6,798 | 6,961 |
| Research and planning | 1,042 | 1,172 |
| Amortization of capital assets | 4,010 | 4,799 |
| Lease payments and expensed capital items | 401 | 444 |
| | 70,303 | 70,735 |
| **Excess of revenues over expenses** | **1,086** | **2,903** |
| **Equity, beginning of year** | **11,074** | **8,171** |
| **Equity, end of year** | **12,160** | **11,074** |

See accompanying notes to financial statements.

## THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY
### Statement of Changes in Equity
### for the year ended March 31, 2000

| | 2000 ($000's) | | | | 1999 ($000's) |
|---|---|---|---|---|---|
| | Invested in CapitalAssets | Unrestricted | Restricted Deferred Pension Charges | Total | Total |
| Balance, beginning of year | 4,367 | 4,633 | 2,074 | 11,074 | 8,171 |
| Excess of revenues over expenses | (1,062) | 1,420 | 728 | 1,086 | 2,903 |
| Investment in Capital assets | 690 | (690) | 0 | 0 | 0 |
| Balance, end of year | 3,995 | 5,363 | 2,802 | 12,160 | 11,074 |

See accompanying notes to financial statements.

## THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY

### Statement of Cash Flows
### for the year ended March 31, 2000

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Excess of revenues over expenses | 1,086 | 2,903 |
| Add (deduct) non-cash items: | | |
| Amortization of capital assets | 4,010 | 4,799 |
| Amortization of deferred capital contributions | (2,948) | (3,920) |
| Deferral of pension charges | (728) | (875) |
| Retirement/disposal of capital assets | 108 | 107 |
| Net change in non-cash working capital: | | |
| Accounts receivable | (453) | (353) |
| Inventories | (53) | (43) |
| Prepaid expenses | 304 | 425 |
| Deferred revenue | (102) | (1,926) |
| Accounts payable and accrued liabilities | 86 | 483 |
| **Cash provided by (used in) operating activities** | **1,310** | **1,600** |
| **INVESTING AND FINANCING ACTIVITIES** | | |
| Capital asset additions | (1,146) | (1,476) |
| Current year's deferred capital contributions | 279 | 334 |
| Lease obligations | 69 | 26 |
| **Cash provided by (used in) investing and financing activities** | **(798)** | **(1,116)** |
| **Net increase in cash position during the year** | **512** | **484** |
| **Cash and short-term investments, beginning of year** | **5,101** | **4,617** |
| **Cash and short-term investments, end of year** | **5,613** | **5,101** |

See accompanying notes to financial statements.

## THE ONTARIO EDUCATIONAL COMMUNICATIONS AUTHORITY

### Notes to Financial Statements
March 31, 2000

### 1. AUTHORITY AND MANDATE

The Ontario Educational Communications Authority (the Authority) is a provincial Crown Corporation that was created in June 1970 by an act of the Ontario Legislature. In accordance with the act, the Authority's main object is to initiate, acquire, produce, distribute, exhibit or otherwise deal in programs and materials in the educational broadcasting and communications fields.

The Authority is a registered charitable organization which may issue income tax receipts for contributions. As a Crown Corporation of the Province of Ontario and a registered non-profit organization under the Income Tax Act, the Authority is exempt from income taxes.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of accounting

The financial statements of the Authority have been prepared in accordance with generally accepted accounting principles.

#### (b) Inventories

Program support materials are valued at the lower of cost or net realizable value where cost is determined on a weighted average basis. Stores and supplies are valued at cost, where cost is determined on a first in, first out basis. Video and audio tapes are valued at the lower of cost or net realizable value, where cost is determined on a first in, first out basis.

#### (c) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Capital assets are amortized on a straight line basis over the following terms beginning the year following acquisition:

| | |
|---|---|
| Building | 30 years |
| Office Furniture & Fixtures | 15 years |
| Office Equipment | 10 years |
| Leasehold Improvements | 5 years |
| In House Technical Equipment | 7 years |
| Transmitter Test & Monitor Equipment | 7 years |
| Transmitters | 17 years |
| Computer Equipment | 5 years |
| Vehicles | 5 years |

**(d) Revenue recognition**

1. Revenue from the licensing of program material is recognized when the rights to the program material are sold.
2. Membership contributions are recorded on a cash basis.
3. Grants and revenues received in the year for special purposes are deferred until the related expenditure has been incurred.
4. Revenue from contributions restricted for the purchase of capital assets is deferred and amortized over the same period as the related capital asset.

**(e) Pension expense**

The net cost of the pension benefits, for the defined benefit plans, is actuarially determined on the basis of management's estimates. The cost is determined by using the projected benefit method prorated on services.

## 3. CASH AND SHORT-TERM INVESTMENTS

The Authority's investment policy restricts short-term investments to securities issued by or guaranteed as to principal and interest by Ontario, any other province of Canada, Canada or the United Kingdom, securities issued by the United States of America or deposit receipts, deposit notes, certificates of deposit, acceptances and other similar instruments issued or endorsed by any chartered bank to which the Bank Act (Canada) applies.

Cash and short-term investments include $4,323,000 (1999 - $4,513,000) of investments maturing within 60 days, yielding 4.7% (1999-5.0%) on average, with a market value that approximates carrying value.

## 4. ACCOUNTS RECEIVABLE

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| Project funding | 3,784 | 2,490 |
| Trade | 1,094 | 1,890 |
| Other | 767 | 812 |
| | 5,645 | 5,192 |

## 5. PENSION PLANS

The Authority maintains non-contributory defined benefit pension plans which cover substantially all of its employees. The plans provide pensions based on length of service and final average earnings.

Actuarial reports for the defined benefit plans have been prepared, based on projections of employees' compensation levels to time of retirement. The reports indicate the present value of the accrued pension benefits and the net assets available to provide for these benefits as at March 31, 2000.

The Authority also maintains a defined contribution plan, which is compulsory for all full time employees. Effective August 21, 1995, eligible contract employees can opt to participate in the defined contribution pension plan.

The defined contribution plan benefits and assets are indicated at market value as at March 31, 2000.

| | Accrued pension benefits ($000's) | Pension fund assets ($000's) |
|---|---|---|
| Employee defined benefit plan | 43,886 | 57,600 |
| Employee defined contribution plan | 9,823 | 9,823 |
| Executive defined benefit plan | 2,610 | 3,247 |

### Pension Expense

The Authority's cash contributions to the plans were $235,000 (1999 - $231,000), and are included in operating expenditures.

The deferral of pension charges of $728,000 (1999 - $875,000) resulted from the accrual method of accounting for pension expense and includes the amortization of the surplus over the average service life of the employees. This amount does not generate funds for use by The Authority.

The deferred pension charges of $2,802,000 (1999 - $2,074,000) resulted from the cumulative difference between the surpluses recognized, amounts expensed and the funding contributions.

## 6. NET CAPITAL ASSETS

Capital assets consist of the following:

| | 2000 ($000's) | | | 1999 ($000's) |
|---|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | **Net Book Value** | **Net Book Value** |
| Land | 236 | 0 | 236 | 236 |
| Buildings | 4,704 | 2,413 | 2,291 | 2,443 |
| Transmitters | 27,186 | 19,337 | 7,849 | 9,277 |
| Transmitter test and monitor equipment | 836 | 760 | 76 | 102 |
| In house technical equipment | 19,277 | 16,258 | 3,019 | 4,035 |
| Leasehold improvements | 2,885 | 1,924 | 961 | 1,382 |
| Computer equipment | 3,597 | 2,192 | 1,405 | 1,218 |
| Office furniture and fixtures | 1,956 | 1,393 | 563 | 646 |
| Office equipment | 1,050 | 657 | 393 | 479 |
| Vehicles | 1,086 | 490 | 596 | 543 |
| | 62,813 | 45,424 | 17,389 | 20,361 |

## 7. INVESTMENTS HELD FOR CAPITAL RENEWAL

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| Balance, beginning of year | 8,685 | 7,799 |
| Grants from the Ministry of Citizenship, Culture and Recreation (note 11) | | |
| - capital grant | 500 | 500 |
| - base grant allocation | 461 | 461 |
| Interest earned | 416 | 386 |
| Drawing for capital acquisitions | (524) | (461) |
| Balance, end of year | 9,538 | 8,685 |

A portion of the funding from the Ministry of Citizenship, Culture and Recreation has been set aside since the 1984 fiscal year to ensure that the Authority's technical capital assets keep pace with technological changes. It provides funds for future maintenance and replacement of technical capital assets when needed. Available funds are invested in short-term deposits.

## 8. DEFERRED REVENUE

| | 2000<br>($000's) | 1999<br>($000's) |
|---|---|---|
| Provincial government programming project funding (note 11) | 70 | 0 |
| Corporate project underwriting and other revenue | 139 | 311 |
| | 209 | 311 |

Expenditure related to the above deferrals has been budgeted in the 2001 fiscal year.

## 9. LEASE OBLIGATIONS

Lease obligations represent the balance of the commitments made under capital leases. The changes in the lease obligations balance are as follows:

| | 2000<br>($000's) | 1999<br>($000's) |
|---|---|---|
| Lease obligations, beginning of year | 400 | 374 |
| Add: new capital leases | 265 | 247 |
| Less: payments made on existing capital leases | (163) | (201) |
| retirement of capital leases | (33) | (20) |
| Lease obligations, end of year | 469 | 400 |
| Current lease obligations | 198 | 192 |
| Non-current lease obligations | 271 | 208 |

## 10. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the amount of contributions received for the purchase of capital assets not yet recognized as revenue. The changes in the deferred contributions balance are as follows:

| | 2000<br>($000's) | 1999<br>($000's) |
|---|---|---|
| Deferred capital contributions, beginning of year | 24,279 | 26,979 |
| Add: Capital renewal fund received and interest earned | 1,377 | 1,347 |
| Current year's Deferred capital contributions | 279 | 334 |
| Less: Drawings from Capital renewal fund | (524) | (461) |
| Amortization of Capital contributions | (2,948) | (3,920) |
| Deferred capital contributions, end of year | 22,463 | 24,279 |

## 11. GOVERNMENT GRANTS AND FUNDING

| | 2000<br>($000's) | 1999<br>($000's) |
|---|---|---|
| **Provincial** | | |
| Ministry of Citizenship, Culture and Recreation | | |
| - Base grant | 47,540 | 47,540 |
| - Capital Grant | 500 | 500 |
| | 48,040 | 48,040 |
| Less: Amount transferred to investments held for capital renewal (note 7) | (961) | (961) |
| | 47,079 | 47,079 |
| Programming project grants and funding: | | |
| Various Province of Ontario Ministries & Agencies | 686 | 286 |
| Funding deferred to future year (note 8) | (70) | 0 |
| | 616 | 286 |
| **Total Provincial** | 47,695 | 47,365 |
| **Federal** | | |
| Programming project grants and funding: | | |
| Secretary of State | 3,369 | 3,150 |
| Others | 249 | 94 |
| Funding deferred from prior year | 0 | 23 |
| **Total Federal** | 3,618 | 3,267 |
| **Total government grants and funding** | 51,313 | 50,632 |

## 12. TVONTARIO GENERATED GROSS REVENUE AND COST OF GENERATED REVENUE

| | 2000 ($000's) | | | 1999 ($000's) | | |
|---|---|---|---|---|---|---|
| | Revenue | Cost* | Net Revenue | Revenue | Cost* | Net Revenue |
| Program sales | 3,310 | 2,313 | 997 | 4,510 | 3,303 | 1,207 |
| Membership | 6,959 | 3,502 | 3,457 | 7,399 | 3,510 | 3,889 |
| Corporate project underwriting ** | 2,112 | 600 | 1,512 | 1,260 | 759 | 501 |
| Other income | 3,774 | 243 | 3,531 | 4,340 | 208 | 4,132 |
| | 16,155 | 6,658 | 9,497 | 17,509 | 7,780 | 9,729 |

*Cost includes dedicated costs and allocated overhead costs.

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| ** Corporate project underwriting revenue: | | |
| Revenue received in the year | 1,868 | 1,550 |
| Revenue deferred from prior year | 295 | 5 |
| Revenue deferred to future year | (51) | (295) |
| | 2,112 | 1,260 |

## 13. NETWORK ACTIVITIES

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| English programming services | 28,427 | 25,175 |
| French programming services | 17,200 | 17,929 |
| Common services and support | | |
| - Broadcast distribution and production support | 3,372 | 3,816 |
| - Advertising and promotion | 2,395 | 2,659 |
| | 51,394 | 49,579 |

## 14. COMMITMENTS

The Authority has entered into capital and operating leases covering transmission facilities, offices, warehouses and equipment. Future lease payments are as follows:

| Year ending March 31 | ($000's) |
|---|---|
| 2001 | 1,819 |
| 2002 | 1,529 |
| 2003 | 1,471 |
| 2004 | 1,344 |
| | 6,163 |
| 2005 and beyond | 3,349 |
| Total future lease payments | 9,512 |

## 15. CONTRIBUTED MATERIALS AND SERVICES

The Authority uses the services of volunteers to assist primarily in the membership area. The Authority also receives contributions of materials for use mainly in fund raising activities. Due to the difficulty of determining their fair value, contributed materials and services are not recognized in the financial statements.

## 16. YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Authority, including those related to customers, suppliers, or other third parties, have been fully resolved.

## 17. The TVOntario Foundation

The Authority controls The TVOntario Foundation (the Foundation) which became designated as a public foundation effective April 1, 1998. The board of directors of the Foundation is appointed by the board of directors of the Authority. The Foundation is incorporated under the Canada Corporations Act and is a registered charity under the Income Tax Act. The objectives of the Foundation are to receive and maintain a fund or funds and to pay all or part of the principal and income to the Authority provided that the Authority maintains its status as a registered charity and continues to have as its objective the promotion of educational and/or children's programming.

The accounts of the Foundation are not consolidated in the financial statements of the Authority. Financial summaries of the Foundation are as follows:

## The TVOntario Foundation

**Financial Position as at March 31st**

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| Cash on hand | 33 | 33 |
| Total assets | 33 | 33 |
| Fund balance | 33 | 33 |

**Results of operations for the year ending March 31st**

| | 2000 ($000's) | 1999 ($000's) |
|---|---|---|
| Revenue | | |
| Contributions | 0 | 33 |
| Total revenue | 0 | 33 |
| Total expenses* | 0 | 0 |
| Excess of revenue over expenses | 0 | 33 |
| Fund balance, beginning of year | 33 | 0 |
| Fund balance, end of year | 33 | 33 |

* The board of directors of the Authority has approved the funding of the Foundation's expenses until the Foundation is self-sufficient. Total expenditure related to the Foundation included in the Authority's statements is $139,000 (1999 - $107,000).

# OECA / OTÉO

## EMPLOYEES PAID $100,000 OR MORE IN 1999

| Name | Position | Salary Paid ($) | Taxable Benefits ($) |
|---|---|---|---|
| | | | |
| Arnold, Clara | Director,<br>Human Resources | 108,625 | 1,000 |
| Bensimon, Jacques | Managing Director,<br>French Programming Services | 116,650 | 1,091 |
| Blackburn, Russell (Professional name: Pierre Granger) | Project Officer II | 118,248 | 740 |
| Cole, Ellen | Director, Communications, and Acting Managing Director, Marketing & Development | 102,363 | 921 |
| Donio, Jan | Creative Head, Educational Programming and Services | 102,894 | 960 |
| Duprey, Donald | Managing Director<br>English Programming Services | 122,662 | 1,149 |
| Ellingson, Pat | Creative Head, Children's and Daytime Programming | 107,989 | 1,008 |
| Grant, Doug | Creative Head ,<br>Current Affairs | 118,875 | 1,099 |
| Paikin, Steve | Project Officer II | 168,298 | 2,396 |
| Robock, Lee | Acting Chief Executive Officer, and Chief Financial Officer | 132,462 | 1,032 |
| Todd, Paula | Project Officer II | 149,046 | 1,656 |

Prepared under the Public Salary Disclosure Act, 1996
Date: March 9, 2000

## Ontario Financing Authority
## Responsibility for Financial Reporting

The accompanying financial statements of the Ontario Financing Authority have been prepared in accordance with accounting principles generally accepted in Canada and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 19, 2000.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board of Directors.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Audit Committee meets periodically with management, the internal auditors and the external auditor to deal with issues raised by them and to review the financial statements before recommending approval by the Board of Directors.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:

Tony Salerno

Tony Salerno
Vice-Chair and
Chief Executive Officer

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

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(416) 327-2381 Fax: (416) 327-9862

***Auditor's Report***

To the Ontario Financing Authority
and to the Minister of Finance

I have audited the balance sheet of the Ontario Financing Authority as at March 31, 2000 and the statements of net income and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2000 and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting principles.

Erik Peters

Toronto, Ontario
June 19, 2000

Erik Peters, FCA
Provincial Auditor

## Ontario Financing Authority
## Balance Sheet

| *(in thousands of dollars)* | **Corporate** | **POSO** | **Total March 31, 2000** | **Total March 31, 1999** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash | $ 121 | 22,613 | 22,734 | $ 44,992 |
| Receivable from the Province of Ontario (note 2i) | 314 | 2,307,122 | 2,307,436 | 1,890,744 |
| Accounts receivable | 3,019 | 37,615 | 40,634 | 40,729 |
| Loans receivable (note 4) | 326 | — | 326 | 316 |
| **Total current assets** | $ 3,780 | 2,367,350 | 2,371,130 | $ 1,976,781 |
| **Long-term assets** | | | | |
| Capital assets (note 3) | 1,447 | 575 | 2,022 | 2,405 |
| Receivable from the Province of Ontario (note 2ii) | — | 532,885 | 532,885 | 624,602 |
| Loans receivable (note 4) | 79,505 | — | 79,505 | 79,832 |
| **Total assets** | $ 84,732 | 2,900,810 | 2,985,542 | $ 2,683,620 |
| **LIABILITIES AND RETAINED EARNINGS** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and accrued liabilities | $ 4,367 | 33,277 | 37,644 | $ 39,217 |
| Funds on deposit (note 2i) | — | 2,279,288 | 2,279,288 | 1,892,681 |
| Due to the Province of Ontario (note 4) | 326 | — | 326 | 316 |
| **Total current liabilities** | $ 4,693 | 2,312,565 | 2,317,258 | $ 1,932,214 |
| **Long-term debt** | | | | |
| Funds on deposit (note 2ii) | — | 532,885 | 532,885 | 624,602 |
| Due to CPP and the Province of Ontario (note 4) | 79,515 | — | 79,515 | 79,841 |
| **Total liabilities** | $ 84,208 | 2,845,450 | 2,929,658 | $ 2,636,657 |
| **Retained earnings** | 524 | 55,360 | 55,884 | 46,963 |
| **Total liabilities and retained earnings** | $ 84,732 | 2,900,810 | 2,985,542 | $ 2,683,620 |

*See accompanying notes to financial statements.*

Approved on behalf of the Board:

Tony Salerno

Bryne Purchase
Chair

Tony Salerno
Vice-Chair and Chief Executive Officer

## Ontario Financing Authority
## Statement of Net Income and Retained Earnings

| *(in thousands of dollars)* | **Corporate** | **POSO** | **Total March 31, 2000** | **Total March 31, 1999** |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Interest revenue | $ 7,716 | 134,899 | 142,615 | $ 126,940 |
| Cost recovery from the Province | 10,392 | — | 10,392 | 10,202 |
| Miscellaneous revenue | — | 1,540 | 1,540 | 1,334 |
| **Total revenue** | $ 18,108 | 136,439 | 154,547 | $ 138,476 |
| **EXPENDITURES** | | | | |
| Interest on short-term debt | $ — | 81,824 | 81,824 | $ 69,004 |
| Interest on long-term debt | 7,711 | 32,157 | 39,868 | 37,764 |
| Salaries, wages and benefits | 7,589 | 9,031 | 16,620 | 16,355 |
| Administrative and general | 1,986 | 4,162 | 6,148 | 5,778 |
| Amortization | 818 | 348 | 1,166 | 981 |
| **Total expenditures** | $ 18,104 | 127,522 | 145,626 | $ 129,882 |
| Net income for the year | $ 4 | 8,917 | 8,921 | $ 8,594 |
| Retained earnings, beginning of the year | 520 | 46,443 | 46,963 | 38,369 |
| Retained earnings, end of the year | $ 524 | 55,360 | 55,884 | $ 46,963 |

*See accompanying notes to financial statements.*

## Ontario Financing Authority
## Cash Flow Statement

| *(in thousands of dollars)* | Corporate | POSO | Total March 31, 2000 | Total March 31, 1999 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Net income for the year | $ 4 | 8,917 | 8,921 | $ 8,594 |
| Adjustments to reconcile net income to funds provided by operating activities: | | | | |
| Amortization | 818 | 348 | 1,166 | 981 |
| Net change in accounts receivable, payable and accrued liabilities | (209) | (1,269) | (1,478) | (103) |
| Cash flows from operating activities | $ 613 | 7,996 | 8,609 | $ 9,472 |
| **Cash flows from financing activities** | | | | |
| Increase in proceeds from depositors | $ — | 294,890 | 294,890 | $ 272,424 |
| Repayments to the Province re: OMIC loans | (316) | — | (316) | (316) |
| Repayments from holders of OMIC loans | 317 | — | 317 | 315 |
| Cash flows from financing activities | $ 1 | 294,890 | 294,891 | $ 272,423 |
| **Cash flows from investing activities** | | | | |
| Increase in POSO funds loaned to the Province of Ontario | $ — | (324,975) | (324,975) | $ (259,461) |
| Purchase of capital assets | (609) | (174) | (783) | (1,060) |
| Cash flows used in investing activities | $ (609) | (325,149) | (325,758) | $ (260,521) |
| Net increase(decrease) in cash | $ 5 | (22,263) | (22,258) | $ 21,374 |
| Cash at beginning of the year | 116 | 44,876 | 44,992 | 23,618 |
| **Cash at end of the year** | $ 121 | 22,613 | 22,734 | $ 44,992 |

*See accompanying notes to financial statements.*

## Ontario Financing Authority
## Notes to Financial Statements for the year ended March 31, 2000

*(all tables are in thousands of dollars)*

### BACKGROUND

The Ontario Financing Authority (the "OFA") was established as an agency of the Crown, on November 15, 1993, by the *Capital Investment Plan Act, 1993* (the "Act"). In accordance with the Act, the OFA's objects are:

- to assist public bodies and the Province of Ontario to borrow and invest money;
- to develop and carry out financing programs, issue securities, manage cash, currency and other financial risks on behalf of the Province, or any public body;
- to provide such other financial services as are considered advantageous to the Province or any public body;
- to operate offices as provided under the Province of Ontario Savings Office Act, as agent for the Minister of Finance; and
- any additional objects as directed by the Lieutenant Governor in Council.

The OFA is a corporation established under the laws of Ontario. The OFA is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* of Canada.

### 1. SIGNIFICANT ACCOUNTING POLICIES

(i) **General:** The financial statements are prepared in accordance with generally accepted accounting principles prescribed by the Canadian Institute of Chartered Accountants.

(ii) **Capital assets:** Capital assets are stated at cost. Amortization is provided using the straight-line method over the estimated useful life of the asset as listed below. Amortization is not taken in the year of acquisition.

| | |
|---|---|
| Furniture and equipment | 5 years |
| Computer hardware | 3 years |
| Leasehold improvements | remaining life of lease |

### 2. PROVINCE OF ONTARIO SAVINGS OFFICE

The OFA operates the Province of Ontario Savings Office (POSO) as agent of the Minister of Finance. POSO accepts deposits from the general public, government and other public bodies that form part of the Consolidated Revenue Fund and are direct liabilities of the Province. Administration costs for the period ended March 31, 2000 of $1,062,670 (March 31, 1999 - $933,800) relating to POSO are provided by the Ministry of Finance and are not included in these financial statements. The average rate of interest paid to depositors and earned from the Province for the year ended March 31, 2000 was 4.28 per cent and 5.04 per cent respectively (March 31, 1999 - 4.15 per cent and 4.99 per cent respectively). These deposits are comprised as follows:

(i) **Receivable from the Province of Ontario and short-term funds on deposit**

| | March 31, 2000 | March 31, 1999 |
|---|---|---|
| Short-term deposits | $ 147,696 | $ 190,223 |
| Demand deposits | 1,490,462 | 1,124,201 |
| GICs maturing within one year | 641,130 | 578,257 |
| **Total short-term funds on deposit** | **$ 2,279,288** | **$ 1,892,681** |

Short-term funds on deposit include deposits made by the Ontario Casino Corporation (OCC), Ontario Clean Water Agency (OCWA), Ontario Realty Corporation (ORC) and other government agencies of about $555 million (March 31, 1999 - $117 million). Funds held on behalf of OCC of $410 million were transferred from a long-term deposit to a short-term demand account earning a rate of 4.90 per cent (March 31, 1999 - $236 million, invested in long-term GICs, earning a variable rate of interest from 4.33 per cent to 5.65 per cent). Funds held on behalf of OCWA and ORC totalling $114 million earned a variable rate of interest from 5.31 per cent to 5.52 per cent and prime less 2 per cent, respectively, as at March 31, 2000 (March 31, 1999 - $109 million earning a variable rate of interest from 4.50 per cent to 5.50 per cent for both accounts combined).

The total current 'Receivable from the Province' of $2,307,436 (March 31, 1999 - $1,890,744) includes short-term funds on deposit plus working capital, mainly of POSO.

### (ii) Receivable from the Province of Ontario and long-term funds on deposit

The long-term 'Receivable from the Province' represents deposits for which POSO has issued long-term GICs. These deposits mature as follows:

| | As at March 31, 2000 | | As at March 31, 1999 | |
|---|---|---|---|---|
| **Year ended March 31** | **Principal Maturing** | **Effective Average Interest Rate (%)** | **Principal Maturing** | **Effective Average Interest Rate (%)** |
| 2001 | $ — | | $ 384,899 | 5.02 |
| 2002 | 250,290 | 5.71 | 120,839 | 5.82 |
| 2003 | 135,447 | 5.56 | 75,510 | 5.37 |
| 2004 | 55,984 | 5.35 | 43,354 | 5.22 |
| 2005 | 91,164 | 5.90 | — | |
| **Total** | **$ 532,885** | | **$ 624,602** | |

## 3. CAPITAL ASSETS

The balance of capital assets, net of amortization, is as follows (amortization begins in the year following acquisition):

| | Cost | Accumulated Amortization | Net March 31, 2000 | Net March 31, 1999 |
|---|---|---|---|---|
| Furniture and equipment | $ 1,154 | $ (1,020) | $ 134 | $ 314 |
| Computer hardware | 4,737 | (3,049) | 1,688 | 1,846 |
| Leasehold improvement | 1,194 | (994) | 200 | 245 |
| | **$ 7,085** | **$ (5,063)** | **$ 2,022** | **$ 2,405** |

## 4. ONTARIO MUNICIPAL IMPROVEMENT CORPORATION (OMIC)

In accordance with the *Capital Investment Plan Act, 1993,* the Ontario Municipal Improvement Corporation (OMIC) ceased to exist and its assets and liabilities were transferred to the OFA on November 15, 1993. OMIC received loans from the Canada Pension Plan (CPP) and the Province, which OMIC used to make loans to municipalities and school boards under similar terms as its debt.

Ontario Financing Authority
Notes to Financial Statements

As of March 31, 2000, the portion of long-term debt maturing in 2000-2001 is $326,000 (March 31, 1999 - $316,000 maturing in 1999-2000) and is due to the Province. Long-term debt (maturing in the year ended March 31, 2002 and future) is composed of debt due to the Province of $494,000 and to the Canada Pension Plan of $79 million (March 31, 1999 - $820,000 and $79 million respectively, maturing in year ended March 31, 2001 and future). The terms of the outstanding debt are as follows:

| | As at March 31, 2000 | | As at March 31, 1999 | |
|---|---|---|---|---|
| **Year ended March 31** | **Principal Maturing** | **Effective Average Interest Rate (%)** | **Principal Maturing** | **Effective Average Interest Rate (%)** |
| 2000 | $ — | | $ 316 | 13.39 |
| 2001 | 326 | 13.58 | 326 | 13.58 |
| 2002 | 354 | 13.59 | 354 | 13.59 |
| 2003 | 64 | 11.55 | 64 | 11.55 |
| 2004 | 54 | 11.55 | 54 | 11.55 |
| 2005 | 6 | 11.25 | — | |
| 1 - 5 years | $ 804 | | $ 1,114 | |
| 6 - 20 years | 79,037 | 9.61 | 79,043 | 9.61 |
| **Total** | **$ 79,841** | | **$ 80,157** | |

## 5. TRANSACTIONS WITH THE PROVINCE AND OTHER PUBLIC BODIES

(i) **Financing activities between the Province and other Public Bodies:** Acting as a financial conduit for the Province, the OFA provides financing to various public bodies, the repayment of which is expected from third-party revenues. The funds for these loans are advanced to the OFA by the Province under a credit facility of $2.16 billion. Repayments received from public bodies by the OFA are forwarded to the Province. These transactions are not reflected in these financial statements.

In compliance with an Ontario Financing Authority Lending Policy adopted by its Board of Directors on December 17, 1997, each advance received by the OFA under the current facility bears interest at a rate that is equivalent to the rate of interest payable to the OFA on the corresponding loan to a public body(ies). As of March 31, 2000, $215 million (March 31, 1999 - $1.71 billion), including accrued interest, was advanced by the Province to the OFA and must be repaid by the OFA on or before August 31, 2027.

Funds are generally advanced by the OFA to public bodies under interim financing arrangements, consisting of a number of promissory notes for terms not exceeding one year. Interest is payable on the principal plus any capitalized interest. As of March 31, 2000, these interest rates ranged from 4.98 per cent to 5.48 per cent (March 31, 1999 from 4.75 per cent to 5.65 per cent). It is the OFA's intention to replace these promissory notes with term debt, at which point repayment terms will be finalized.

Prior to March 31, 2000, the following has been converted into debentures: Ontario Northland Transportation Commission - $3.9 million at 5.64 per cent maturing April 1, 2008, $12.7 million at 6.37 per cent maturing August 1, 2014 and $19 million at 5.6 per cent maturing December 1, 2014.

## Ontario Financing Authority
## Notes to Financial Statements

The following represents amounts receivable by the OFA on behalf of the Province, including capitalized interest, net of financing costs. These are related party transactions, with the exception of those with the City of Windsor.

| | March 31, 2000 | March 31, 1999 |
|---|---|---|
| Ontario Transportation Capital Corporation - Hwy 407 | $ — | $ 1,524,642 |
| Metro Toronto Convention Centre | 156,583 | 151,360 |
| Corporation of the City of Windsor | 23,450 | 19,923 |
| Ontario Northland Transportation Commission | 34,717 | 17,725 |
| Centennial Centre of Science and Technology | 607 | 600 |
| | **$ 215,357** | **$ 1,714,250** |

The Ontario Transportation Capital Corporation (OTCC) was created as a Crown agency of the Province established by the *Capital Investment Plan Act, 1993*. In 1999, the OTCC was continued as a share capital corporation under the *Ontario Business Corporations Act*, wholly owned by the Province, and renamed "407 ETR Concession Company Limited" which was sold to a private consortium on May 5, 1999.

To facilitate the sale, effective April 6, 1999 the Ontario Financing Authority assigned and transferred all of its rights, title and interest in debt owed to it by the OTCC, including long-term debt, promissory notes and accrued interest, to the Province. The Province agreed to accept such assignment as payment in full of the corresponding indebtedness of the OFA to the Province. The Province also confirmed that the indebtedness of the OFA to the Province of $1,524,642,000 including accrued interest was discharged.

The Metro Toronto Convention Centre Corporation (MTCC) is a Crown agency of the Province under the Metropolitan Toronto Convention Centre Corporation Act. The majority of directors on the MTCC board is appointed by the Lieutenant Governor in Council.

The Corporation of the City of Windsor is a municipality within the meaning of the *Municipal Act*. The financing provided is for the acquisition, design and construction of the Windsor Justice Facility, consisting of provincial division courthouse and city police headquarters.

The Ontario Northland Transportation Commission (ONTC) is a Crown agency of the Province under the *Ontario Northland Transportation Commission Act, 1990*. Members of the Commission are appointed by the Lieutenant Governor in Council.

The Centennial Centre of Science and Technology is a Crown agency of the Province under the Centennial Centre of Science and Technology Act. Its Board of Trustees is appointed by the Lieutenant Governor in Council.

(ii) **Investing for Related Parties**: In the normal course of operations, the OFA provides investment management services to other public bodies. Funds managed on behalf of other public bodies (which are not reflected in these financial statements) as of March 31, 2000, consist of $194 million held on behalf of the Northern Ontario Heritage Fund Corporation (March 31, 1999 - $199 million), $58 million held on behalf of Ontario Trillium Foundation (March 31, 1999 - NIL) and $15 million held on behalf of Ontario Securities Commission (March 31, 1999 - NIL). The OFA also manages debt on behalf of the Province and was reimbursed $10.4 million for the year ended March 31, 2000 for these activities (March 31, 1999 - $10.2 million).

(iii) **Province of Ontario Savings Office:** Other related parties have deposited their funds on a long- and short-term basis. Total amounts deposited as at March 31, 2000 were $555 million (March 31, 1999 - $389 million).

## Ontario Financing Authority
## Notes to Financial Statements

### 6. PENSION PLAN

The OFA provides pension benefits for its employees through participation in the Public Service Pension Plan. The OFA's pension contributions for the period ended March 31,2000 were $875,000 (March 31, 1999-$817,000).

### 7. FINANCIAL INSTRUMENTS

The carrying amounts for cash, accounts receivable, receivable from the Province of Ontario, accounts payable and accrued liabilities and short-term funds on deposit approximate their fair values because of the short-term maturity of these instruments.

Given that the terms and amounts of the OFA's long-term receivables offset the OFA's long-term debt, providing fair values for these instruments would not add any more useful information to that which has already been presented in these financial statements.

### 8. SALARIES (absolute dollars)

Provincial Legislature requires disclosure of Ontario public-sector employees paid an annual remuneration in excess of $100,000. The amounts paid in 1999 to individuals listed below, who are identified with an asterisk (*), include salary and performance-based pay.

| Name | Position | Remuneration Paid | Taxable Benefits |
|---|---|---|---|
| Charles Allain | Manager - Risk Management | $ 141,486* | $ 345 |
| Kanak Chopra | Director - Risk Control | $ 167,288* | $ 411 |
| James Devine | Manager - Fixed Income & Medium-Term Notes | $ 132,705* | $ 326 |
| Andrew Hainsworth | Manager - Funding | $ 133,600* | $ 326 |
| Douglas Harrington | Manager - Risk Control Operations | $ 125,150* | $ 307 |
| Michael Manning | Director - Risk Management | $ 187,344* | $ 453 |
| Gadi Mayman | Executive Director, Capital Markets | $ 193,409* | $ 469 |
| Christine Moszynski | Director - Capital Markets Treasury | $ 106,460 | $ 281 |
| David Peters | Manager - Foreign Exchange | $ 132,511* | $ 326 |
| William Ralph | Director - Corporate Finance | $ 108,186 | $ 281 |
| Tony Salerno | ADM - Office of Treasury/CEO - Vice Chair, OFA | $ 233,692* | $ 568 |
| Corey Simpson | Legal Counsel | $ 116,250 | $ 330 |

# ONTARIO HOUSING CORPORATION

## RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Ontario Housing Corporation have been prepared in accordance with the accounting policies described in note 1 to the financial statements and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to April 14, 2000.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on a periodic basis and reports it findings to management and the Audit Committee of the Board of Directors.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Audit Committee meets periodically with management, the internal auditors and the external auditor to deal with issues raised by them and to review the financial statements before recommending approval by the Board of Directors.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with accounting policies described in note 1 to the financial statements. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:

Lynn M. MacDonald
Chief Executive Officer

David Peters
General Manager

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

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***Auditor's Report***

To the Ontario Housing Corporation
and to the Minister of Municipal Affairs and Housing

I have audited the balance sheet of the Ontario Housing Corporation as at December 31, 1999 and the statement of operations for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999, and the results of its operations for the year then ended in accordance with the accounting policies described in note 1 to the financial statements.

Toronto, Ontario
April 14, 2000

J.R. McCarter, CA
Assistant Provincial Auditor (Acting)

## ONTARIO HOUSING CORPORATION
### Balance Sheet
### As at December 31, 1999

| | 1999 | 1998 |
|---|---|---|
| | (Thousands of dollars) | |
| **ASSETS** | | |
| Investments in Properties (note 3) | 1,118,485 | 1,144,891 |
| Mortgages and Loans (note 4) | 22,242 | 27,128 |
| Amount due from Province of Ontario (note 5) | 130,025 | 107,085 |
| Accounts Receivable | 12,669 | 8,351 |
| | 1,283,421 | 1,287,455 |
| Non-Profit Housing Fund (note 6) | 1,359,963 | 1,359,712 |
| | **2,643,384** | **2,647,167** |
| **LIABILITIES** | | |
| Long-Term Debt (note 7) | 969,581 | 995,310 |
| Accounts Payable and Accrued Liabilities (note 8) | 125,770 | 101,757 |
| Bank Indebtedness | 3,884 | 537 |
| | 1,099,235 | 1,097,604 |
| Non-Profit Housing Fund (note 6) | 1,359,963 | 1,359,712 |
| **EQUITY** | | |
| Contributed Surplus (note 9) | 184,186 | 189,851 |
| | **2,643,384** | **2,647,167** |

See accompanying notes to financial statements.

On Behalf of the Board:

Chair

Chief Executive Officer

General Manager

Treasurer

## ONTARIO HOUSING CORPORATION
### *Statement of Operations*
### For the Year Ended December 31, 1999

| | 1999 | 1998 |
|---|---|---|
| | (Thousands of dollars) | |
| Assisted Housing (note 10) | | |
| Rental Revenue | 328,850 | 314,984 |
| Expenses | | |
| Property Operating Expenses | 312,214 | 302,184 |
| Capital Repairs & Improvements | 93,365 | 117,590 |
| Grants in lieu of Municipal Taxes | 121,130 | 123,641 |
| Amortization (Principal and Interest) | 101,885 | 104,782 |
| Total Expenses | 628,594 | 648,197 |
| Net Operating Costs of Assisted Housing | 299,744 | 333,213 |
| Rent Supplements (note 11) | 104,091 | 111,522 |
| Contributions to Municipal Housing (note 12) | 22,582 | 18,879 |
| Rural and Native Housing (note 13) | 7,822 | 7,698 |
| Year 2000 Readiness Costs (note 14b) | 21,983 | 2,718 |
| **Total Operating Costs** | **456,222** | **474,030** |
| Subsidies | | |
| Canada Mortgage and Housing Corporation | 140,290 | 223,301 |
| Province of Ontario (Loan Amortization Contribution) | 19,412 | 19,797 |
| Ministry of Municipal Affairs and Housing | 296,520 | 230,932 |
| **Total Subsidies** | **456,222** | **474,030** |

See accompanying notes to financial statements.

ONTARIO HOUSING CORPORATION
Notes to Financial Statements
December 31, 1999

## NATURE OF OPERATIONS

The Ontario Housing Corporation is an agency of the Ministry of Municipal Affairs and Housing and is continued under the Ontario Housing Corporation Act R.S.O. 1990 c.0.21. The Corporation together with its agents - the 54 Local Housing Authorities - manage the Province's extensive public housing portfolio. Housing is provided to low income households based on need. Eligible tenants pay rent based on income rather than on the size or type of housing provided.

The Corporation is the largest landlord in Ontario, owning approximately 84,000 public housing units; providing rent supplement payments for approximately 19,500 units within private, non-profit and cooperative rental housing buildings; providing subsidy to approximately 15,500 units within the Toronto Housing Company Inc. and to approximately 3,100 units under the Rural and Native Housing Program.

Up to September 30, 1999, the Corporation was funded through rental income from tenants and subsidies from the Province and Canada Mortgage and Housing Corporation (CMHC). Effective October 1, 1999 the Province signed a new Social Housing Agreement with CMHC that replaced all previous agreements which existed between CMHC and the Corporation. Under the Agreement, the Province now receives funds from the Federal Government and fully reimburses the Corporation for the operating losses incurred. This reimbursement includes the portion of operating losses formerly funded by CMHC.

## 1. SIGNIFICANT ACCOUNTING POLICIES

The following summarizes the significant accounting policies used in preparing the financial statements:

i) The Corporation uses the accrual method of accounting.

ii) Capital funds provided by the Province of Ontario for Investments in Properties are not repayable and are therefore recorded as Contributed Surplus. However, to reflect the full costs of operating the properties, relevant amortization charges (principal and interest) are imputed and included in the Net Operating Costs of Assisted Housing. Such amortization is offset by the subsidy from the Province of Ontario indicated in the Statement of Operations.

iii) Land and buildings held as investments in Provincial and Federal-Provincial properties are amortized on a basis equal to the reduction of the corresponding long-term debt. The provincial portion of the amortization is offset by a reduction to Contributed Surplus.

iv) Capital Repairs and Improvements including furniture and equipment purchases are expensed in the year incurred.

v) Because the Corporation does not maintain cash balances or equivalents, and does not engage in significant financing and investment activities, a statement of cash flows has not been included in these financial statements.

## 2. SELF-INSURANCE

The Corporation follows the policy of self-insuring its Provincial and Federal-Provincial properties for damages such as fire, water and vandalism. Costs of such repairs are charged to property operating expenses. The financial liability for all other risks rests with the Province.

## 3. INVESTMENT IN PROPERTIES

The Corporation's investment in properties is as follows:

| | | 1999 | 1998 |
|---|---|---|---|
| | | (thousands of dollars) | |
| (a) | Provincial Housing | 1,028,837 | 1,053,114 |
| (b) | Federal-Provincial Housing | 11,148 | 11,689 |
| (c) | Rural and Native Housing | 27,894 | 28,058 |
| (d) | Student Housing on Leased Land | 47,895 | 49,345 |
| (e) | Other | 2,711 | 2,685 |
| | | 1,118,485 | 1,144,891 |

(a) Provincial Housing

This investment represents land and building costs of wholly-owned properties which are amortized over periods not exceeding 50 years.

| | 1999 | 1998 |
|---|---|---|
| | (thousands of dollars) | |
| Cost | 1,317,683 | 1,317,683 |
| Less: Accumulated Amortization | 288,846 | 264,569 |
| Net Book Value | 1,028,837 | 1,053,114 |

(b) Federal-Provincial Housing

This investment represents the Corporation's share of land and building costs which are amortized over periods not exceeding 50 years.

| | 1999 | 1998 |
|---|---|---|
| | (thousands of dollars) | |
| Cost | 20,753 | 20,753 |
| Less: Accumulated Amortization | 9,605 | 9,064 |
| Net Book Value | 11,148 | 11,689 |

These properties were formerly owned in partnership with CMHC. Under the Social Housing Agreement, effective October 1, 1999, CMHC's ownership interests and financial responsibilities were transferred to the Province. The properties continue to be managed by the Corporation's local housing authorities.

(c) Rural and Native Housing

This investment represents the Corporation's share of land and building costs which are amortized over periods not exceeding 35 years. The Ministry will assume administrative responsibility of the partnership portfolio, currently administered by CMHC, by December 31, 2000 under terms of the Social Housing Agreement.

| | 1999 | 1998 |
|---|---|---|
| | (thousands of dollars) | |
| Rental Properties | 26,465 | 26,136 |
| Lease to Purchase Properties | 1,429 | 1,922 |
| Net Book Value | 27,894 | 28,058 |

(d) Student Housing on Leased Land

This investment represents building costs to provide student accommodation on land leased from 10 universities and colleges. These costs are being repaid semi-annually to the Corporation by the educational institutions over a 50 year period. When the costs are fully repaid, titles to the properties will be transferred to the respective institutions. The institutions retain the rental revenues and absorb the property operating expenses. Consequently, the accumulated contributions of the universities and colleges represent their equity in the properties.

| | 1999 | 1998 |
|---|---|---|
| | (thousands of dollars) | |
| Cost | 62,129 | 62,682 |
| Less: Educational Institutions' Equity | 14,234 | 13,337 |
| Net Book Value | 47,895 | 49,345 |

(e) Other

| | 1999 | 1998 |
|---|---|---|
| | (thousands of dollars) | |
| Leased Land, at cost | 2,308 | 2,308 |
| Land Inventory, lower of cost or estimated market value | 265 | 265 |
| Other | 138 | 112 |
| | 2,711 | 2,685 |

## 4. MORTGAGES AND LOANS

| | 1999 | 1998 |
|---|---|---|
| | (thousands of dollars) | |
| Rural and Native Housing Program | 22,242 | 24,293 |
| Other | 0 | 2,835 |
| | 22,242 | 27,128 |

The Rural and Native Housing Program mortgages represent the Corporation's share of the investments which are amortized over periods not exceeding 35 years. The Ministry will assume administrative responsibility for the entire portfolio currently administered by CMHC by December 31, 2000 under terms of the Social Housing Agreement.

ONTARIO HOUSING CORPORATION
Notes to Financial Statements
December 31, 1999

## 5. AMOUNT DUE FROM PROVINCE OF ONTARIO

The amount due from the Province of Ontario includes $6.4 million of unspent capital grants. The use of these funds is restricted to capital repairs and improvements.

## 6. NON-PROFIT HOUSING FUND

The Province of Ontario authorized the Corporation to borrow funds from the Canada Pension Plan Fund ("CPP") by the issuance of debentures. The funds borrowed were loaned as mortgages to non-profit housing corporations and universities and colleges to build, acquire or lease housing units under the Homes Now and Student Residences Programs.

All but one of these mortgages to non-profit housing corporations have been discharged and refinanced by the private lenders. Funds received from the discharged mortgages are loaned to the Province of Ontario.

As at December 31, 1999, the fund consisted of:

| | 1999 | 1998 |
|---|---|---|
| | (thousands of dollars) | |
| **Assets** | | |
| Cash | 1,581 | 1,330 |
| Loans to Province of Ontario | 1,157,212 | 1,157,212 |
| Mortgages | | |
| Non-Profit Housing Corps. | 1,760 | 1,760 |
| Universities and Colleges | 166,128 | 166,128 |
| Interest Receivable | 33,282 | 33,282 |
| | 1,359,963 | 1,359,712 |
| **Liabilities and Fund Balance** | | |
| Canada Pension Plan Investment Fund (CPP) Debentures | 1,323,340 | 1,323,340 |
| Interest Payable | 33,282 | 33,282 |
| Fund Balance | 3,341 | 3,090 |
| | 1,359,963 | 1,359,712 |

The CPP funds were borrowed from 1989 to 1992 and are repayable 20 years from the date of issuance of the debentures. Interest is payable semi-annually at various rates based on individual debentures - weighted average rate of 10.3%.

Loans to the Province and mortgages to non-profit housing corporations and universities and colleges are repayable over periods not in excess of 20 years. Interest is calculated semi-annually at various rates based on individual loans and mortgages - weighted average rate of 9.0% (1998 - 9.0%). When the interest received from the Province is less than the interest payable on the related CPP borrowings, the Corporation receives an interest adjustment from the Ministry of Municipal Affairs and Housing for the difference.

Details of the transactions related to the fund balance are as follows:

| | 1999 | 1998 |
|---|---|---|
| | (thousands of dollars) | |
| Balance - Beginning of Year | 3,090 | 2,842 |
| Interest Earned | 136,228 | 136,225 |
| Interest Expense | (135,977) | (135,977) |
| Balance - End of Year | 3,341 | 3,090 |

Interest earned includes $102.2 million (1998 - $102.2 million) on loans to the Province of Ontario, $17.1 million (1998 - $17.1 million) from long term mortgages to Universities and Colleges, and $16.9 million (1998 - $16.9 million) from the Ministry of Municipal Affairs and Housing as an interest adjustment for the difference between the interest rates on CPP borrowings and loans to the Province.

## 7. LONG-TERM DEBT

| | 1999 | 1998 |
|---|---|---|
| | (thousands of dollars) | |
| Canada Mortgage and Housing Corporation | 952,716 | 977,911 |
| Other | 16,865 | 17,399 |
| | 969,581 | 995,310 |

The Corporation borrows funds from Canada Mortgage and Housing Corporation and the private sector to finance investments in real property. Such borrowings are repaid in accordance with agreement terms over periods not in excess of 50 years. Interest is payable at various rates based on individual agreements - weighted average rate of 6.8% (1998 - 6.9%).

Principal repayments on the long-term debt are as follows:

| | (thousands of dollars) |
|---|---|
| 2000 | 24,373 |
| 2001 | 26,026 |
| 2002 | 27,792 |
| 2003 | 29,677 |
| 2004 | 31,684 |
| Subsequent to 2004 | 830,029 |
| | 969,581 |

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 1999 | 1998 |
|---|---|---|
| | (thousands of dollars) | |
| Canada Mortgage and Housing Corporation | 54,794 | 24,064 |
| Other | 70,976 | 77,693 |
| | 125,770 | 101,757 |

ONTARIO HOUSING CORPORATION
Notes to Financial Statements
December 31, 1999

## 9. CONTRIBUTED SURPLUS

| | 1999 | 1998 |
|---|---|---|
| | (thousands of dollars) | |
| Balance - Beginning of Year | 189,851 | 194,927 |
| Provincial Portion of Amortization | (5,665) | (5,076) |
| Balance - End of Year | 184,186 | 189,851 |

## 10. ASSISTED HOUSING

Under the assisted housing program, the Corporation owns rental properties and provides rent-geared-to-income accommodation to households in need. The management of the properties is carried out through a network of local housing authorities who act as agents of the Corporation.

## 11. RENT SUPPLEMENTS

Under the rent supplement programs, the use of rental units is acquired from the private sector and from certain non-profit and cooperative housing groups and then rent-geared-to-income subsidies are provided to households in need. The subsidies represent the difference between the rent guaranteed to the landlord and the tenant portion of the rent.

## 12. CONTRIBUTIONS TO MUNICIPAL HOUSING

The Corporation provides funding to the Toronto Housing Company Inc. towards operating costs of assisted housing.

## 13. RURAL AND NATIVE HOUSING

This program, currently administered by Canada Mortgage and Housing Corporation, provides subsidies for rental, lease to purchase and home ownership accommodation to families in rural areas. Rental, lease to purchase and home ownership payments are geared to owners' income.

## 14. RELATED PARTY TRANSACTIONS

### (a) Pension Plan

The Corporation provides pension benefits for substantially all its permanent crown employees through participation in two multi-employer pension plans, the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario.

The Corporation's net contribution to the PSPF and the OPSEU Pension Fund for the year was $4.5 million (1998 - $5.0 million). This amount is included in Assisted Housing - Property Operating Expenses and Rent Supplement in the Statement of Operations.

### (b) Administrative Support Services

The Ministry of Municipal Affairs and Housing provides administrative support services to the Corporation. The charge for these services is based on the estimated time spent by Ministry staff on the Corporation's activities. The administrative support services charge included in Assisted Housing - Property Operating Expenses and Rent Supplement amounted to $12.3 million (1998 - $13.0 million). In addition, the Corporation was charged $22.0 million (1998 - $2.7 million) with respect to "Year 2000 Readiness Costs" incurred to update and test date-sensitive systems which used two digits rather than four to identify a year.

## 15. DETERMINATION OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments are based on relevant market prices and information available at December 31, 1999. The fair value estimates are not necessarily indicative of the amounts that the Corporation might receive or incur in actual market transactions. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Since the investments in properties do not meet the definition of financial instruments, the fair value estimates below do not reflect the fair value of the Corporation as a whole.

It is impractical to determine fair values for mortgages and loans made under the Rural and Native Housing program because of the terms and conditions related thereto, including associated subsidies.

The fair values of amounts due from the Province of Ontario, accounts receivable, accounts payable and accrued liabilities, and bank indebtedness approximate their carrying values because of the short term maturity of these instruments.

The fair values of each of the Corporation's long-term debt instruments is based on the amount of future cash flows associated with each instrument discounted using an estimate based on debt instruments with similar characteristics. At December 31, 1999, the aggregate fair value of these instruments was less than their aggregate book values by $33.9 million (1998 - exceeded book values by $41.4 million).

Due to the nature of the assets and liabilities comprising the Non-Profit Housing Fund and the terms and conditions related thereto, the Corporation does not have any significant interest rate risk because the Corporation is reimbursed for losses arising from fluctuations in interest rates.

## 16. FUTURE OPERATIONS

As part of its Local Services Realignment initiative, the government announced that funding and administration of social housing would be devolved to municipalities. This implied that the Corporation's role would disappear or be much reduced within the next few years. Legislation with respect to the direction of devolution is expected to be introduced to the Legislature in 2000. At that time, subject to the approval of the Legislature, the future role of OHC will become clear.

## 17. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to the current year's financial statement presentation.

Ontario
place

## Responsibility for Financial Reporting

The management of Ontario Place Corporation is responsible for the integrity and fair presentation of the financial statements accompanying this report. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

The Corporation maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable and that company assets and liabilities are adequately accounted for and assets safeguarded.

The financial statements have been reviewed by the Corporation's Audit Committee and have been approved by its Board of Directors. In addition, the financial statements have been audited by the Provincial Auditor, whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears as part of the financial statements, outlines the scope of the Auditor's examination and opinion.

Leslie Hutcheson

Leslie Hutcheson,
General Manager

Douglas Miller,
Director, Financial Services

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

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***Auditor's Report***

To Ontario Place Corporation
and to the Minister of Tourism

I have audited the balance sheet of Ontario Place Corporation as at December 31, 1999 and the statements of operations and equity, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999, and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting principles.

Toronto, Ontario
April 7, 2000

J.R. McCarter, CA
Assistant Provincial Auditor (Acting)

## ONTARIO PLACE CORPORATION

### Balance Sheet
### As at December 31, 1999

| | 1999 ($000's) | 1998 ($000's) |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and short-term deposits (Note 3) | 287 | 2,473 |
| Accounts receivable | 838 | 485 |
| Due from the Province of Ontario (Note 4) | 68 | — |
| Inventory | 182 | 208 |
| Prepaid expenses | 163 | 127 |
| | 1,538 | 3,293 |
| **Capital Assets** (Note 5) | 114,220 | 114,399 |
| | 115,758 | 117,692 |
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | 1,275 | 805 |
| Due to the Province of Ontario | — | 361 |
| Deferred income | 28 | 44 |
| | 1,303 | 1,210 |
| **Deferred Capital Contributions** (Note 6) | 10,406 | 11,975 |
| **Equity** | | |
| Invested in capital assets | 103,814 | 102,424 |
| Retained income (deficit) | 235 | 2,083 |
| | 104,049 | 104,507 |
| | 115,758 | 117,692 |

Contingencies and Commitments (Note 8)

See accompanying schedules and notes to financial statements.

Approved on behalf of the Corporation.

Director

Director

## ONTARIO PLACE CORPORATION

### Statement of Operations and Equity
### For the Year Ended December 31, 1999

| | 1999 ($000's) | 1998 ($000's) |
|---|---|---|
| Operating revenue (Schedule 1) | 12,025 | 13,812 |
| Administrative and operating expenses (Schedule 2) | 15,831 | 17,702 |
| Operating deficit before the following | (3,806) | (3,890) |
| Province of Ontario operating grant | 3,600 | 4,033 |
| Amortization of deferred capital contributions | 1,569 | 1,686 |
| Amortization of capital assets | (2,322) | (2,106) |
| Refund of prior year property taxes (Note 9) | 501 | 3,285 |
| | 3,348 | 6,898 |
| **Net income (loss) for the year** | (458) | 3,008 |
| **Equity, beginning of year** | 104,507 | 101,499 |
| **Equity, end of year** | 104,049 | 104,507 |

## ONTARIO PLACE CORPORATION

### Statement of Changes in Equity
### For the Year Ended December 31, 1999

| | 1999 ($000's) | | | 1998 ($000's) |
|---|---|---|---|---|
| | Invested in Capital Assets | Surplus Excluding Amortization of Deferred Capital Contributions and Capital Assets | Total | Total |
| Balance, beginning of year | 102,424 | 2,083 | 104,507 | 101,499 |
| Net income | (753) | 295 | (458) | 3,008 |
| Investment in capital assets | 2,143 | (2,143) | — | — |
| Balance, end of year | 103,814 | 235 | 104,049 | 104,507 |

See accompanying schedules and notes to financial statements.

## ONTARIO PLACE CORPORATION

### Statement of Cash Flows
### For the Year Ended December 31, 1999

---

| | 1999 ($000's) | 1998 ($000's) |
|---|---|---|
| **Operating Activities** | | |
| Net income for the year | (458) | 3,008 |
| Adjustments against net income not requiring an outlay of cash | | |
| - amortization of capital assets | 2,322 | 2,106 |
| - amortization of deferred capital contributions | (1,569) | (1,686) |
| - gain on capital assets disposed | — | (66) |
| Net change in non-cash working capital | (338) | (1,033) |
| Cash provided by operating activities | (43) | 2,329 |
| **Investing Activities** | | |
| Capital assets disposed | — | 183 |
| Capital assets acquisitions | (2,143) | (1,301) |
| Cash used in investing activities | (2,143) | (1,118) |
| **(Decrease) increase in cash during the year** | (2,186) | 1,211 |
| **Cash and short-term deposits, beginning of year** | 2,473 | 1,262 |
| **Cash and short-term deposits, end of year** | 287 | 2,473 |

See accompanying schedules and notes to financial statements.

## ONTARIO PLACE CORPORATION

### Schedules of Operating Revenue and Administrative and Operating Expenses For the Year Ended December 31, 1999

---

### Schedule 1
### Operating Revenue

| | 1999 ($000's) | 1998 ($000's) |
|---|---|---|
| Admissions | 5,747 | 6,114 |
| Parking | 1,561 | 1,667 |
| Site rentals and special events | 1,298 | 1,257 |
| Concessions | 994 | 1,270 |
| Marina | 672 | 572 |
| Cinesphere revenues | 662 | 1,356 |
| Sponsorship revenue (Note 10) | 611 | 1,003 |
| Attractions | 408 | 462 |
| Interest income | 72 | 111 |
| | 12,025 | 13,812 |

### Schedule 2
### Administrative and Operating Expenses

| | 1999 ($000's) | 1998 ($000's) |
|---|---|---|
| Salaries and wages | 5,818 | 5,996 |
| Employee benefits (Note 7) | 1,040 | 958 |
| Advertising | 1,912 | 2,087 |
| Programming and entertainment | 1,805 | 2,319 |
| Site maintenance | 1,893 | 1,996 |
| General and administration | 1,433 | 1,717 |
| Supplies | 528 | 638 |
| Utilities | 822 | 837 |
| Property taxes (Note 9) | 411 | 494 |
| Bad debts | 106 | 575 |
| Other | 63 | 85 |
| | 15,831 | 17,702 |

See accompanying notes to financial statements.

## ONTARIO PLACE CORPORATION

### Notes to Financial Statements
### December 31, 1999

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### 1. NATURE OF OPERATION

Ontario Place Corporation, (the "Corporation" or "Ontario Place") a provincial Crown agency, operates a park built on a 96-acre site extending through three islands created using landfill along the Toronto waterfront. The park includes a wide variety of programs, attractions and facilities which capture the spirit of Ontario by featuring distinctive and quality attractions for all ages. The site is intended to provide visitors with an appreciation of the Province's resources and accomplishments.

The fees charged for admission and the various attractions within the park are subject to approval by the Province of Ontario (the "Province"). The Province also provides a grant to partially cover the costs of activities, programs and rejuvenation of the park.

In addition to the various attractions and activities operated directly by Ontario Place, the Corporation had for the 1999 season, 17 licence, ground lease and special event agreements with various private-sector companies. Subsequent to the year end, the Corporation entered into a new agreement with one concessionaire to operate the majority of the food outlets for the next 10 years. The combined site activities are estimated to generate economic activity of approximately $50 million annually.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Accounting

The financial statements are the representations of management prepared in accordance with generally accepted accounting principles.

#### (b) Inventory

Supplies inventory is valued at cost. Resale inventory is valued at the lower of cost or net realizable value.

#### (c) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of the assets as indicated below:

| | |
|---|---|
| Buildings | 25 years |
| Attractions | 10 years |
| Equipment, fixtures | 10 years |
| Computer equipment | 4 years |
| Vehicles | 3 years |

#### (d) Revenues

Under the Park's Play All Day Admission Policy, most of the related revenue is allocated to Admissions with the exception of the Sea Trek joint venture, and other minor attractions.

## ONTARIO PLACE CORPORATION

**Notes to Financial Statements**
**December 31, 1999**

### 3. CASH AND SHORT-TERM DEPOSITS

The Corporation's investment policy restricts short-term deposits to high liquid, high-grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits. Short-term deposits were nil at December 31, 1999 (1998 - $2.0 million).

### 4. DUE FROM THE PROVINCE OF ONTARIO

The amount shown is the net of amounts due from the Province of $1,028,174 and due to the Province of $960,200.

### 5. CAPITAL ASSETS

Capital assets consists of the following:

| | 1999 | | | 1998 |
|---|---|---|---|---|
| | Cost ($000's) | Accumulated Amortization ($000's) | Net Book Value ($000's) | Net Book Value ($000's) |
| Land, waterlots | 101,660 | 0 | 101,660 | 101,660 |
| Buildings | 4,824 | 1,300 | 3,524 | 3,401 |
| Attractions | 9,503 | 5,115 | 4,388 | 5,299 |
| Equipment, Fixtures | 11,426 | 6,851 | 4,575 | 4,021 |
| Computer Equipment | 158 | 140 | 18 | 13 |
| Vehicles | 149 | 94 | 55 | 5 |
| | 127,720 | 13,500 | 114,220 | 114,399 |

### 6. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the amount of restricted grants received in prior years and used for the purchase of capital assets. These assets have been capitalized and the grant has been deferred and will be amortized into income over the useful lives of the assets. The changes in the deferred capital contributions balance are as follows:

| | 1999 ($000's) | 1998 ($000's) |
|---|---|---|
| Balance, beginning of year | 11,975 | 13,661 |
| Amount amortized to revenue | (1,569) | (1,569) |
| Unamortized amount on capital assets disposed | 0 | (117) |
| Balance, end of year | 10,406 | 11,975 |

## ONTARIO PLACE CORPORATION

**Notes to Financial Statements**
**December 31, 1999**

### 7. PENSION PLAN

The Corporation provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario.

The Corporation's contribution related to the PSPF and OPSEU Pension Fund for the year was $313,958 (1998 - $303,771) and is included in employee benefits in the Schedule of Administrative and Operating Expenditures.

### 8. CONTINGENCIES AND COMMITMENTS

#### (a) Concessionaires

The Corporation was named as a defendant in an action by a concessionaire in June 1995. Total claimed damages amount to $1.5 million plus interest and legal costs. The Corporation was also named as a co-defendant in actions by three other concessionaires in November 1995. Total claimed damages on each action amount to $1.5 million plus interest and legal costs. There is a cross claim for the claimed damages in each action by the co-defendants against the Corporation and a cross claim in each action by the Corporation against its co-defendants.

The likelihood of a loss to the Corporation, and amount of loss regarding each of the actions is not determinable at this time.

#### (b) Lease Commitments

Minimum lease payments for equipment rental and licence fees for 2000 is $489,000.

### 9. PROPERTY TAXES

The Corporation received amounts totalling $501,369 to property tax refunds for taxation years 1995 and 1998 from the City of Toronto during the year.

Property taxes for the taxation year 1999 are being appealed. Any refund will be accounted for in the year the appeal is settled.

The corporation believes, and has received a legal opinion stating that it has no legal obligation to pay grants in lieu of property taxes relating to Ontario Place. As a result, in fiscal 1996/97, the Board of Directors of the Corporation passed a resolution declaring that, commencing with the 1996 taxation year, the Corporation will not make any payment or record any charges for property taxes or grants in lieu of property taxes with respect to those portions of Ontario Place property not occupied by tenants. The Corporation advised the then Ministry of Economic Development, Trade and Tourism, and the Ministry of Municipal Affairs and Housing of the Board's decision.

## ONTARIO PLACE CORPORATION

**Notes to Financial Statements**
**December 31, 1999**

### 9. PROPERTY TAXES (CONTINUED)

During the year, the Corporation paid property taxes of $839,755 (1998 - $977,326) including the concession premises. The Corporation charged back $428,755 (1998 - $483,402) to these concessions.

### 10. SPONSORSHIP REVENUE

Sponsorship agreements confer exclusive use of company products/services during the operating season, and include promotion and facility signage throughout the site where applicable.

Sponsorship revenue does not include in kind contributions including an estimated $5 million in Symphony of Fire programming costs paid directly by a major sponsor. Without these in kind contributions, Ontario Place would have to incur considerable expenditures for such events to maintain attendance levels and site revenues.

### 11. YEAR 2000 ISSUE

The year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors or systems failures when information using year 2000 dates is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the year 2000 issue that may affect the Corporation, including those related to customers, suppliers, or other third parties, have been resolved.

### 12. COMPARATIVE FIGURES

The December 31, 1998 comparative figures have been reclassified where necessary, to conform to the current year's presentation.

## Ontario Realty Corporation

## Responsibility for Financial Reporting

The accompanying financial statements of the Ontario Realty Corporation have been prepared in accordance with accounting principles generally accepted in Canada and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 9, 2000.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. Management maintains a system of internal controls designed to provide reasonable assurance that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function, managed by Management Board Secretariat, independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Board of Directors.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:

Linda Gregory

Linda Gregory
Chief Financial Officer & Treasurer (Acting)
June 9, 2000

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

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***Auditor's Report***

To the Ontario Realty Corporation,
Chair of the Management Board of Cabinet,
and to the Minister of Finance

I have audited the balance sheet of the Ontario Realty Corporation as at March 31, 2000 and the statements of operations and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Erik Peters

Toronto, Ontario
June 9, 2000

Erik Peters, FCA
Provincial Auditor

**ONTARIO REALTY CORPORATION**
**(A Crown Corporation of the Province of Ontario)**

## BALANCE SHEET

| As at March 31($ thousands) | 2000 | 1999 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | 8,672 | 9,960 |
| Prepaid expenses | 89 | 0 |
| Accounts receivable | 504 | 0 |
| Future recoveries from Management Board Secretariat (note 6) | 18,167 | 25,700 |
| | 27,432 | 35,660 |
| Capital assets (note 3) | 325 | 650 |
| | 27,757 | 36,310 |
| **LIABILITIES AND RETAINED EARNINGS** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued liabilities | 6,139 | 9,665 |
| Provision for severance costs (note 6) | 18,167 | 25,700 |
| | 24,306 | 35,365 |
| **RETAINED EARNINGS** | 3,451 | 945 |
| | 27,757 | 36,310 |

See Notes to Financial Statements

On behalf of the Board:

Chair

Director

**ONTARIO REALTY CORPORATION**
**(A Crown Corporation of the Province of Ontario)**

## STATEMENT OF OPERATIONS AND RETAINED EARNINGS

| Year Ended March 31($ thousands) | 2000 | 1999 |
|---|---|---|
| **REVENUES** | | |
| Management fees | 10,868 | 16,678 |
| Expense reimbursement (in lieu of fees) | 24,425 | 27,536 |
| Direct recoverable costs | 13,926 | 19,927 |
| Bank interest | 368 | 574 |
| | 49,587 | 64,715 |
| **EXPENDITURES** | | |
| Salaries and benefits | 28,716 | 43,621 |
| Direct operating expenditures | 11,117 | 12,880 |
| Administrative expenses (note 2) | 6,923 | 6,944 |
| Depreciation | 325 | 325 |
| | 47,081 | 63,770 |
| **NET OPERATING SURPLUS BEFORE SEVERANCE COSTS** | 2,506 | 945 |
| Provision for severance costs (note 6) | (6,155) | (25,700) |
| Future recoveries from Management Board Secretariat (note 6) | 6,155 | 25,700 |
| **NET OPERATING SURPLUS** | 2,506 | 945 |
| **RETAINED EARNINGS, BEGINNING OF YEAR** | 945 | 0 |
| **RETAINED EARNINGS, END OF YEAR** | 3,451 | 945 |

**ONTARIO REALTY CORPORATION**
**(A Crown Corporation of the Province of Ontario)**

## STATEMENT OF CASH FLOWS

| Year Ended March 31($ thousands) | 2000<br>(note 8) |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Net operating surplus | 2,506 |
| Adjustments for: | |
| Depreciation | 325 |
| Provision for severance costs | 6,155 |
| Future recoveries from Management Board Secretariat (note 6) | (6,155) |
| | 2,831 |
| **Changes in non cash working capital** | |
| Accounts receivable | (504) |
| Prepaid expenses | (89) |
| Accounts payable and accrued liabilities | (3,526) |
| | (4,119) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | (1,288) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | |
| Severance payments made during year | (13,688) |
| Severance recoveries from Management Board Secretariat during year (note 6) | 13,688 |
| | 0 |
| Net (decrease) in cash during year | (1,288) |
| Cash, beginning of year | 9,960 |
| **Cash, end of year** | 8,672 |

See Notes to Financial Statements

**ONTARIO REALTY CORPORATION**

**(A Crown Corporation of the Province of Ontario)**

**NOTES TO FINANCIAL STATEMENTS**

**March 31, 2000 (Amounts in $000's)**

## NATURE OF THE CORPORATION

The Ontario Realty Corporation (the Corporation) was incorporated under the *Capital Investment Plan Act 1993* as a Crown Corporation of the Province of Ontario (the Province).

On March 3, 1998, Management Board of Cabinet approved the following structure for the ORC;

> Ownership of all properties by the Corporation reverted to the Management Board Secretariat (MBS) on March 31, 1998; and on return of the assets, the net book value to the Corporation reverted to nil, the associated debt was forgiven, and equity contributions from the Province was reduced by the difference.
>
> The Corporation retained full authority for managing the realty assets which are under the control of the Minister/Chair of Management Board of Cabinet, including: strategic planning and advice, facility and asset management, space utilization, acquisitions, capital projects and disposal of surplus assets, as approved in the annual corporate plan.
>
> The Corporation is to become fully self-sustaining, through the charging of appropriate management fees for services based on market rates and industry standards and practices; such fees to be negotiated and approved annually as part of the Corporation's corporate plan.

The Corporation provides project management, real estate and property management services to ministries and agencies of the Ontario government that directly own assets or require the Corporation's real estate services. The Corporation manages 51.7 million rentable square feet, 44.0 million owned by the Province and 7.7 million leased from the private sector at locations across the Province.

As a Crown Corporation and service organization of the Province the Corporation is exempt from income taxes.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) General

These financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions relating to revenues and expenses which affect the reported amounts of assets, liabilities and related disclosures as of the date of the financial statements. Actual amounts could differ from these estimates.

### (b) Capital Assets

Capital assets in excess of one thousand dollars with a future useful life beyond the current year are capitalized. Capital assets are comprised of computer hardware and software and are amortized on a straight lines basis over three years.

## 2. RELATED PARTY TRANSACTIONS

In addition to the cash reflected on the balance sheet, the Corporation maintains four other operating bank accounts and one capital reserve bank account. Funds in these accounts are held "in trust", administered on behalf of MBS and relate directly to the operation of MBS owned and leased properties or services provided to other ministries or agencies of the Ontario government. As of March 31, 2000 the cash balances of the aggregated four operating accounts and one capital reserve account were $23,814 (1999 - $24,344) and $19,128 (1999 - $27,556) respectively.

The accounts receivable includes $457 from MBS (1999 - due to MBS of $6,000 included in accounts payable).

Administrative expenses include: accounting, human resources, audit, information and data processing, legal and communication services purchased from MBS.

The Corporation is economically dependant on the Province as all of the revenues received from the Province for the provision of services are under the control of the Minister/Chair of Management Board of Cabinet.

### 3. CAPITAL ASSETS

Capital assets consists of the following:

| March 31 | 2000 | | | 1999 |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Book Value | Net Book Value |
| Computer hardware and software | 975 | 650 | 325 | 650 |

Certain capital assets are not reflected in the financial statements as they are provided at no charge to the Corporation by MBS.

### 4. LEASE COMMITMENTS

The Corporation has entered into a number of operating leases for government owned space. In addition it leases computer equipment and vehicles to conduct its business. Future lease payments are as follow:

| For the year ending March 31 | |
|---|---|
| 2001 | $1,145 |
| 2002 | $1,059 |
| 2003 | $1,013 |
| Total: | $3,217 |

### 5. CONTINGENCIES

The Corporation is acting as an agent of the Ontario Government. As such, the Corporation is entitled to be indemnified against all liabilities properly incurred in the course of exercising its actual authority on behalf of the Ontario Government.

## 6. SEVERANCE COSTS

The severance provision provides for staff severance costs associated with the Corporation's re-organization and the contracting out of its facilities and land management services. The changes in the severance provision are as follows:

| March 31, | 2000 |
|---|---|
| Severance provision, beginning of year | 25,700 |
| Additions to provision | 6,155 |
| Severance expenditures | (13,688) |
| Severance provision, end of year | 18,167 |

## 7. PENSION PLAN

The Corporation provides pension benefits for all its full-time employees through participation in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Pension Fund (OPSEU Pension fund) established by the Province.

The Corporation's required contributions related to the pension plans for the year ended March 31, 2000 were $1,695 (1999 - $2,190) and are included in the salaries and benefits in the Statement of Operations and Retained Earnings.

## 8. STATEMENT OF CASH FLOWS

Comparative figures are not provided in the statement of cash flows, because of the significant changes in the Corporation's operations. Inclusion of fiscal 1999 comparisons would not provide any additional useful information.

## ONTARIO SECURITIES COMMISSION

## MANAGEMENT'S RESPONSIBILITY

Management is responsible for the integrity of the financial statements and other information presented in the annual report. The financial statements have been prepared by management in accordance with generally accepted accounting principles.

The Ontario Securities Commission is committed to full and open disclosure of its operations and maintains a system of internal controls designed to provide reasonable assurance that reliable financial information is available on a timely basis. The preparation of financial statements involves the use of estimates based on management's judgement on transactions which will conclude in future periods.

The Board of Directors ensures that management fulfills its responsibility for financial information and internal control. The financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. The Provincial Auditor's Report, which follows, outlines the scope of the Auditor's examination and opinion.

David A. Brown
Chair and Chief Executive Officer

May 11, 2000

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

***Auditor's Report***

To the Ontario Securities Commission

I have audited the balance sheet of the Ontario Securities Commission as at March 31, 2000 and the statements of operations and operating surplus and of cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Erik Peters

Toronto, Ontario
May 11, 2000

Erik Peters, FCA
Provincial Auditor

## ONTARIO SECURITIES COMMISSION
### Balance Sheet
As at March 31, 2000

| | 2000 | 1999 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT** | | |
| Cash | $13,932,907 | $5,861,963 |
| Accounts receivable | 459,817 | 758,448 |
| Prepaid expenses | 191,423 | 121,012 |
| | 14,584,147 | 6,741,423 |
| DESIGNATED SETTLEMENTS (Note 3) | 1,445,692 | 1,100,000 |
| RESERVE FUND ASSETS (Note 4) | 15,000,000 | 7,500,000 |
| CAPITAL ASSETS (Note 6) | 7,418,411 | 3,002,827 |
| | $38,448,250 | $18,344,250 |
| **LIABILITIES** | | |
| **CURRENT** | | |
| Accounts payable and accrued liabilities | $10,016,679 | $ 6,517,820 |
| Due to Province of Ontario (Note 8(a)) | 309,684 | 1,858,061 |
| Current portion of obligation under capital leases (Note 7(b)) | 161,720 | 453,759 |
| | 10,488,083 | 8,829,640 |
| OBLIGATION UNDER CAPITAL LEASES (Note 7(b)) | 41,622 | 271,618 |
| | 10,529,705 | 9,101,258 |
| DESIGNATED SETTLEMENTS (Note 3) | 1,445,692 | 1,100,000 |
| **SURPLUS** | | |
| **OPERATING** | | |
| General | 11,374,609 | 544,748 |
| Reserve (Note 4) | 15,000,000 | 7,500,000 |
| | 26,374,609 | 8,044,748 |
| CONTRIBUTED | 98,244 | 98,244 |
| | 26,472,853 | 8,142,992 |
| | $38,448,250 | $18,344,250 |

See accompanying notes to Financial Statements.

ON BEHALF OF THE COMMISSION

David A. Brown, Q.C.
Chair

K. D. Adams

Kerry D. Adams, FCA
Commissioner

## ONTARIO SECURITIES COMMISSION

**Statement of Operations and Operating Surplus**

For the Twelve Months Ended March 31, 2000

| | 2000 | 1999 |
|---|---|---|
| **REVENUE** | | |
| Fees | | |
| Prospectus filings | $ 46,326,353 | $ 41,275,685 |
| Registration | 23,866,333 | 24,403,354 |
| Disclosure filings | 8,802,297 | 7,860,050 |
| Applications for exemptive relief | 1,270,017 | 1,101,133 |
| Secondary market | - | 286,298 |
| Recoveries | 63,000 | 505,000 |
| Miscellaneous | 142,605 | 71,987 |
| Investment income | 1,909,539 | - |
| | 82,380,144 | 75,503,507 |
| **EXPENSES** (Note 8(c)) | | |
| Salaries and benefits (Note 9) | 24,757,568 | 18,802,819 |
| Professional services (Note 10) | 7,769,988 | 5,844,422 |
| Administrative | 3,408,421 | 2,397,816 |
| Occupancy (Note 7(a)) | 3,050,949 | 2,704,469 |
| Other | 799,888 | 556,081 |
| Amortization | 1,512,977 | 149,813 |
| | 41,299,791 | 30,455,420 |
| **EXCESS OF REVENUE OVER EXPENSES** | 41,080,353 | 45,048,087 |
| **OPERATING SURPLUS, BEGINNING OF PERIOD** | 8,044,748 | 44,748 |
| **LESS**: Distributions to Province of Ontario (Note 8(a)) | 22,750,492 | 37,048,087 |
| **OPERATING SURPLUS, END OF PERIOD** | $ 26,374,609 | $ 8,044,748 |
| **Represented by:** | | |
| General | $ 11,374,609 | $ 544,748 |
| Reserve | 15,000,000 | 7,500,000 |
| | $ 26,374,609 | $ 8,044,748 |

See accompanying notes to Financial Statements.

## ONTARIO SECURITIES COMMISSION
**Statement of Cash Flows**
For the Twelve Months Ended March 31, 2000

|  | 2000 | 1999 |
|---|---|---|
| **NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES** |  |  |
| Cash flows from operating activities |  |  |
| Excess of revenue over expenses | $ 41,080,353 | $ 45,048,087 |
| Adjustments for amortization | 1,512,977 | 149,813 |
|  | 42,593,330 | 45,197,900 |
| Changes in non-cash working capital: |  |  |
| Accounts receivable | 298,631 | (698,465) |
| Prepaid expenses | (70,411) | 14,884 |
| Due to Province of Ontario | (1,548,377) | 1,858,061 |
| Obligation under capital leases | (522,035) | 725,377 |
| Accounts payable and accrued liabilities | 3,498,859 | 103,638 |
|  | 1,656,667 | 2,003,495 |
|  | 44,249,997 | 47,201,395 |
| Cash flows from financing activities |  |  |
| Distributions to Province of Ontario | (22,750,492) | (37,048,087) |
|  | (22,750,492) | (37,048,087) |
| Cash flows from investing activities |  |  |
| Reserve fund assets | (7,500,000) | (7,500,000) |
| Purchase of capital assets | (5,928,561) | (2,807,532) |
|  | (13,428,561) | (10,307,532) |
| **NET INCREASE (DECREASE) IN CASH POSITION** | 8,070,944 | (154,224) |
| **CASH POSITION, BEGINNING OF PERIOD** | 5,861,963 | 6,016,187 |
| **CASH POSITION, END OF PERIOD** | $ 13,932.907 | $ 5,861,963 |

See accompanying notes to Financial Statements.

## ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements
March 31, 2000

### 1. NATURE OF THE CORPORATION

Effective November 1, 1997, amendments to the *Securities Act* continued the Ontario Securities Commission (the "Commission") as a corporation without share capital. The Commission functions as an independent regulatory agency and administrative tribunal responsible for overseeing the securities industry in Ontario. As a Crown corporation, the Commission is exempt from income taxes.

### 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

#### a) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets, beginning in the fiscal year following acquisition, as follows:

| | |
|---|---|
| Office furniture and equipment | 5 to 10 years |
| Computer hardware and related applications | 2 years |
| Computer equipment under capital leases | 2 years |
| Leasehold improvements | over term of lease |

#### b) Revenue

Fees are recognized when earned which is normally upon receipt. The amount of revenue to be realized from prospectus filing fees is uncertain. Fees are paid based on estimated prospectus proceeds and refunds are issued, as required, based on actual proceeds in Ontario. As a result, revenue from prospectus filings is recognized net of a provision for expected refunds. At the beginning of each fiscal year the Commission establishes a percentage for the provision for expected refunds based on the experience of the previous three years. The provision is adjusted at year end. Continuous disclosure filing fees are recognized upon receipt of filing.

Recovery of costs of investigations is recognized as revenue upon date of decision unless management determines there is no reasonable assurance as to ultimate collection. When there is no reasonable assurance as to ultimate collection, revenue is recognized when cash is received.

#### c) Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.

## ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements
March 31, 2000

### 3. DESIGNATED SETTLEMENTS

The Commission has reached a number of settlement agreements arising from enforcement proceedings where monies from these settlements are received or receivable by the Commission to be set aside and allocated to such third parties as the Commission may determine, to be used for purposes that will benefit investors in Ontario. During 2000, the Commission established a Committee to review funding proposals and oversee distribution of these funds. The accumulated funds are held in a segregated bank account. As at March 31, 2000, the accumulated balance is determined as follows:

| | 2000 | 1999 |
|---|---|---|
| Opening balance | $1,100,000 | $ - |
| Settlements | 359,056 | 1,100,000 |
| Interest | 6,636 | - |
| Payments | (20,000) | - |
| Closing Balance | $1,445,692 | $ 1,100,000 |

| | 2000 | 1999 |
|---|---|---|
| Represented by: | | |
| Cash | $ 895,692 | $ - |
| Settlements Receivable | 550,000 | 1,100,000 |
| | $1,445,692 | $ 1,100,000 |

### 4. RESERVE

As part of the approval of its self-funded status, the Commission was allowed to establish a $10.0 million reserve to be used as an operating contingency against revenue shortfalls or unanticipated expenditures. In April, 1999, the Commission obtained approval to increase the reserve to $20.0 million over a three year period. In 1999, $7.5 million was retained and an additional $7.5 million was retained in 2000, for a total of $15 million. The accumulated funds, at March 31, 2000, have been invested in short-term and mid-term instruments with the Ontario Financing Authority. Investments are carried at cost, which approximates market value. The prime investment consideration for the reserve is the protection of principal and the appropriate liquidity to meet unanticipated cash flow needs. On April 11, 2000, the Commission transferred an additional $5 million to the Reserve.

## ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements
March 31, 2000

### 5. COMMITMENTS AND CONTINGENCIES

a) The Commission has guaranteed 61% of a total $12 million line of credit from a Canadian bank for the Mutual Fund Dealers Association of Canada (MFDA). The guarantee was signed March 19, 1999 and can be terminated by the Commission at any time. The Alberta Securities Commission and the British Columbia Securities Commission have also guaranteed a specified percentage of the total indebtedness. The MFDA has signed an agreement which requires it to use the funds only in accordance with the budget and business plan as approved by each of the Commissions, and also commits the MFDA to repay its loan by the end of the seventh year. As at March 31, 2000, the MFDA has drawn $4,670,000 (1999 - $640,000) on this line of credit. Interest is charged at prime plus 0.50% per annum.

b) The Commission is involved in various legal actions arising out of the ordinary course and conduct of business. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time.

### 6. CAPITAL ASSETS

| | Cost | Accumulated Amortization | 2000 Net Book Value | 1999 Net Book Value |
|---|---|---|---|---|
| Office furniture | $1,390,642 | $ 37.634 | $ 1.353,008 | $ 105,994 |
| Office equipment | 70,670 | 7.409 | 63,261 | 68,050 |
| Computer hardware and related applications | 4,013,137 | 1,201.881 | 2.811,256 | 1,997,058 |
| Computer equipment under capital leases | 831,725 | 415.862 | 415,863 | 831,725 |
| Leasehold improvements | 2,775,023 | - | 2.775,023 | - |
| | $ 9,081,197 | $1,662.786 | $ 7.418,411 | $ 3,002,827 |

**ONTARIO SECURITIES COMMISSION**
Notes to the Financial Statements
March 31, 2000

## 7. LEASE OBLIGATIONS

### a) Operating

The Commission is committed to operating lease payments for office space for the next 5 years as follows:

| | |
|---|---|
| 2001 | $2,886,225 |
| 2002 | $2,886,225 |
| 2003 | $2,886,225 |
| 2004 | $2,497,777 |
| 2005 | $2,420,087 |

The commitment on 11,173 square feet of space currently occupied by the Commission expires on May 31, 2003, at which time the Commission has the option to renew for an additional two years and three months at the prevailing market rate.

### b) Capital

On termination of the service delivery agreement with the Ministry of Finance (Note 8(c)), lease obligations for computer equipment that were entered into by the Ministry were transferred to the Commission and recorded at the present value of the minimum lease payments as at November 1, 1998. The present value of the lease payments for any new lease subsequently entered into by the Commission has been added to this value. All capital leases expire on or before December 31, 2001. As at March 31, 2000, total obligation under capital leases amounted to $203,342 of which $161,720 is due within one year. Interest owing on capital leases amounts to $9,833.

## 8. TRANSACTIONS WITH PROVINCE OF ONTARIO

In the course of normal operations, the Commission entered into transactions with the Province of Ontario as follows:

a) The *Securities Act* states that when ordered to do so by the Minister of Finance, the Commission shall remit to the Province of Ontario such surplus funds as determined by the Minister. In accordance with this provision, the Minister has requested the Commission to remit fee revenues which are in excess of its operating requirements. The Commission includes fixed asset funding in its operating requirements.

b) The Commission has entered into a tri-party agreement with the Ontario Financing Authority to facilitate banking arrangements with a Schedule 1 Bank.

**ONTARIO SECURITIES COMMISSION**
Notes to the Financial Statements
March 31, 2000

c) On November 1, 1997, the Commission entered into a service delivery agreement with the Ministry of Finance for the provision of regulatory and related support services to the Commission, at cost. The service delivery agreement ended October 31, 1998. The following expenditures were incurred by the Ministry of Finance on behalf of the Commission and are included in the Commission's expenditures. Figures for the seven month period ended October 31, 1998 are provided below:

| | For the period April 1, 1998 to October 31, 1998 |
|---|---|
| Salaries and Benefits | $9,246,847 |
| Professional Services | 2,581,749 |
| Occupancy | 1,788,980 |
| Administrative | 873,109 |
| Travel | 219,283 |
| | $14,709,968 |

## 9. PENSION PLANS

Effective November 1, 1998, the Commission began to provide pension benefits to its full-time employees through participation in the Public Service Pension Plan (PSPP) established by the Province of Ontario. The Commission's contribution to the pension plan for the year ended March 31, 2000 was $1,151,556 (1999 - $372,071) and is included in salaries and benefits.

The Commission also maintains supplementary unfunded pension plans for certain full-time members of the Commission. The benefits earned to date by these members do not represent a material obligation to the Commission.

## 10. TRANSACTIONS WITH THE CANADIAN G-30

In September 1998, the Commission entered into a cost sharing arrangement with the Canadian G-30 Committee (a group which represents various securities industry participants). The Commission agreed to assume the leadership role on a Year 2000 related project. The goal of the project was to develop and implement industry-wide testing for Year 2000 preparedness, which was completed during the year. During 2000 the Commission spent $2,350,865 (1999 - $1,539,797) on this project of which $711,241 (1999 - $1,112,296) was funded by the Canadian G-30. The net expenditure of $1,639,624 (1999 - $427,501) is included in professional services.

## ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements
March 31, 2000

### 11. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

### 12. SUBSEQUENT EVENTS

In the May 2, 2000 Budget, the Minister of Finance announced that the Ontario Securities Commission and the Financial Services Commission of Ontario would be merged into a single agency that would provide regulation of the capital markets and financial services sectors.

### 13. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to current presentation.

Ontario Securities Commission Public Salary Disclosure

| NAME | POSITION | SALARY PAID | TAXABLE BENEFITS |
|---|---|---|---|
| Abols, Imants | Legal Counsel | $ 113,156.59 | $ 217.80 |
| Brown, David | Chair | $ 517,248.84 | $ 884.04 |
| Butler, Brian | Manager, Investigations | $ 154,210.88 | $ 355.12 |
| Byrnes, Robert | Deputy Director Information Technology | $ 129,292.79 | $ 668.28 |
| Carchrae, John | Chief Accountant | $ 149,410.41 | $ 264.42 |
| Carscallen, Morley | Commissioner | $ 168,630.15 | $ 0.00 |
| Conacher, Mark | Director, Corporate Relations | $ 147,809.87 | $ 351.08 |
| Cowdery, Rebecca | Manager, Investment Funds | $ 157,268.89 | $ 246.00 |
| De Verteuil, Michael | Senior Forensic Accountant | $ 114,507.30 | $ 305.44 |
| Dempsey, Paul | Legal Counsel | $ 100,656.78 | $ 184.35 |
| Dublin, Julia | Senior Legal Counsel | $ 124,944.77 | $ 344.80 |
| Falbone, Joanna | Manager, Case Assessment | $ 102,161.25 | $ 255.60 |
| Ferguson, Rosemary | Senior Accountant | $ 133,423.51 | $ 467.24 |
| Ferrari, Antonietta | Manager, Compliance | $ 143,505.88 | $ 176.99 |
| Franken, Heidi | Manager, Continuous Disclosure | $ 101,088.75 | $ 251.40 |
| Geller, John | Vice Chair | $ 467,222.46 | $ 424.80 |
| Hendrickson, Barbara | Senior Legal Counsel | $ 103,272.98 | $ 196.32 |
| Kohl, Robert | Senior Legal Counsel | $ 129,041.06 | $ 235.68 |
| Kaer, Elle | Senior Accountant | $ 157,862.88 | $ 222.96 |
| Liu, Winfield | Senior Legal Counsel | $ 133,553.97 | $ 344.80 |
| Ljubic, Gregory | Senior Investigation Counsel | $ 115,907.99 | $ 471.03 |
| Macfarlane, Charles | Executive Director | $ 355,368.49 | $ 579.48 |
| MacLaren, Tanis | Head-Office of International Affairs | $ 148,891.68 | $ 255.60 |
| Moseley, Timothy | Manager, Litigation | $ 142,754.28 | $ 245.80 |
| Naster, Jay | Special Counsel | $ 140,225.26 | $ 246.00 |
| Pare, Maxime | Senior Legal Counsel | $ 108,689.73 | $ 319.56 |
| Paul, Margo | Manager, Corporate Finance | $ 139,590.80 | $ 236.86 |
| Pavalow, Randee | Manager, Market Regulation | $ 147,938.13 | $ 364.72 |
| Pilipavicius, Rima | Senior Forensic Accountant | $ 117,987.47 | $ 196.32 |
| Soden, Kathryn | Director, Corporate Finance | $ 175,353.69 | $ 375.70 |
| Spencer, Mary | Director, Corporate Services | $ 172,347.55 | $ 285.24 |
| Superina, Johanna | Senior Litigation Counsel | $ 107,308.58 | $ 202.56 |
| Tse, Byron | Manager, Application Services | $ 102,721.62 | $ 179.12 |
| Vranic, Iva | Manager, Corporate Finance | $ 122,979.87 | $ 424.75 |
| Watson, Michael | Director, Enforcement | $ 126,971.92 | $ 162.24 |
| Wetston, Howard | Vice Chair | $ 317,038.90 | $ 2,921.86 |
| Whiler, Rick | Senior Accountant | $ 134,833.74 | $ 217.80 |
| Wolburgh Jenah, Susan | General Counsel | $ 157,452.53 | $ 278.94 |

*Prepared under the Public Salary Disclosure Act, 1996*

### Ontario Trillium Foundation

## Management's Responsibility For Financial Information

The accompanying financial statements of the Ontario Trillium Foundation are the responsibility of management and have been prepared in accordance with generally accepted accounting principles.

Management maintains a system of internal controls designed to provide reasonable assurance that financial information is accurate and that assets are protected.

The Board of Directors ensures that management fulfils its responsibilities for financial reporting and internal control. The Finance Committee and the Board of Directors meet regularly to oversee the financial activities of the foundation, and at least annually to review the audited financial statements and the external auditors' report thereon.

The financial statements have been examined by Ernst & Young LLP, independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditors' Report outlines the scope of the auditors' examination and opinion.

APashley.

L. Robin Cardozo, FCA
Chief Executive Officer

Anne Pashley
Vice-President,
Finance and Administration

# AUDITORS' REPORT

To the Board of Directors of the
**Ontario Trillium Foundation**

We have audited the balance sheet of the **Ontario Trillium Foundation** as at March 31, 2000 and the statements of operations and changes in accumulated net assets and cash flows for the year then ended. These financial statements are the responsibility of the foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the foundation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Canada. As required by the Corporations Act (Ontario), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Ernst & Young LLP
Chartered Accountants

Toronto, Canada,
April 28, 2000.

**Ontario Trillium Foundation**

# BALANCE SHEET

As at March 31

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| **ASSETS** | | |
| Cash | **864,198** | 562,260 |
| Accrued interest and other | **2,413,491** | 808,297 |
| Investments *[note 3]* | **79,839,766** | 18,291,849 |
| Capital assets, net *[note 4]* | **1,436,053** | 1,474,507 |
| | **84,553,508** | 21,136,913 |
| **LIABILITIES AND NET ASSETS** | | |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | **887,877** | 692,113 |
| Grants payable *[note 6[b]]* | **60,600,413** | 14,920,734 |
| Deferred contributions *[note 6[a]]* | **14,227,317** | 4,475,144 |
| **Total liabilities** | **75,715,607** | 20,087,991 |
| **Net assets** *[note 7]* | | |
| Invested in capital assets | **1,436,053** | 1,474,507 |
| Unrestricted assets (deficit) | **7,401,848** | (425,585) |
| **Accumulated net assets** | **8,837,901** | 1,048,922 |
| | **84,553,508** | 21,136,913 |

*See accompanying notes*

On behalf of the Board:

Robert G. Power
Chair

Robert N. Speck
Treasurer

**Ontario Trillium Foundation**

## STATEMENT OF OPERATIONS AND CHANGES IN ACCUMULATED NET ASSETS

Year ended March 31

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| **REVENUE** | | |
| Ontario Ministry of Citizenship, Culture and Recreation funding *[note 5]* | **93,747,827** | 12,988,568 |
| Grants rescinded or recovered | **1,175,705** | 525,797 |
| Interest income | **5,095,111** | 923,524 |
| | **100,018,643** | 14,437,889 |
| **EXPENSES** | | |
| Grants pledged *[note 6]* | **84,529,100** | 10,216,411 |
| Current operations | **7,601,736** | 4,308,413 |
| Non-grant contributions to the community *[note 8]* | **98,828** | 162,330 |
| | **92,229,664** | 14,687,154 |
| **Excess (deficiency) of revenue over expenses for the year** | **7,788,979** | (249,265) |
| Accumulated net assets, beginning of year | **1,048,922** | 1,298,187 |
| **Accumulated net assets, end of year** | **8,837,901** | 1,048,922 |

*See accompanying notes*

**Ontario Trillium Foundation**

## STATEMENT OF CASH FLOWS

Year ended March 31

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| **GRANTING AND OPERATING ACTIVITIES** | | |
| Excess (deficiency) of revenue over expenses for the year | 7,788,979 | (249,265) |
| Add non-cash item | | |
| Amortization of capital assets | 470,578 | 362,679 |
| Net change in non-cash working capital balances related to operations | 54,022,422 | 1,071,926 |
| **Cash provided by granting and operating activities** | 62,281,979 | 1,185,340 |
| **INVESTING ACTIVITIES** | | |
| Net decrease (increase) in investments | (61,547,917) | 429,499 |
| Purchase of capital assets | (432,124) | (1,146,680) |
| **Cash used in investing activities** | (61,980,041) | (717,181) |
| **Net increase in cash during the year** | 301,938 | 468,159 |
| Cash, beginning of year | 562,260 | 94,101 |
| **Cash, end of year** | 864,198 | 562,260 |

*See accompanying notes*

**Ontario Trillium Foundation**

# NOTES TO FINANCIAL STATEMENTS

March 31, 2000

## 1. PURPOSE

The Ontario Trillium Foundation ["Trillium"], an agency of the Ministry of Citizenship, Culture and Recreation [the "Ministry"], is financially supported by the Government of Ontario. Trillium began operations as an arm's length agency of the Ontario Government on August 23, 1982 and was incorporated without share capital under the laws of Ontario under letters patent dated November 17, 1982. Trillium's purpose is to work with others to make strategic investments to build healthy, sustainable and caring communities in Ontario.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada applied within the framework of the accounting policies summarized below:

### Revenue recognition

Trillium follows the deferral method of accounting for contributions, which include government funding. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Contributions externally restricted are deferred and recognized as revenue in the year in which the related expenses are recognized.

### Investments

Short-term investments and guaranteed investment certificates are recorded at cost. Bonds are recorded at amortized cost.

### Grants

Grants are recorded as expenses in the year that the Board of Directors approves the grant.

### Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis using the following annual rates:

| | |
|---|---|
| Furniture and fixtures | 5 years |
| Computer hardware | 3 years |
| Computer software | 1 year |
| Leasehold improvements | over term of the lease |

**Ontario Trillium Foundation**

# NOTES TO FINANCIAL STATEMENTS

March 31, 2000

## 3. INVESTMENTS

Investments consist of the following:

| | 2000 | | 1999 | |
|---|---|---|---|---|
| | Cost<br>$ | Market value<br>$ | Cost<br>$ | Market value<br>$ |
| Treasury bills | **60,259,187** | **60,259,187** | — | — |
| Bankers' acceptances | **15,580,580** | **15,580,580** | 14,291,850 | 14,291,850 |
| Government of Canada, 7.05% due May 1, 2001 | **3,999,999** | **3,984,257** | 3,999,999 | 4,068,128 |
| | **79,839,766** | **79,824,024** | 18,291,849 | 18,359,978 |

The treasury bills and bankers' acceptances are due within the next twelve months and bear interest from 4.90% to 6.03%.

## 4. CAPITAL ASSETS

Capital assets consist of the following:

| | 2000 | | | 1999 | | |
|---|---|---|---|---|---|---|
| | Cost<br>$ | Accumulated amortization<br>$ | Net book value<br>$ | Cost<br>$ | Accumulated amortization<br>$ | Net book value<br>$ |
| Furniture and fixtures | **557,104** | **196,888** | **360,216** | 434,409 | 97,736 | 336,673 |
| Computer hardware | **615,894** | **480,668** | **135,226** | 463,182 | 300,822 | 162,360 |
| Computer software | **414,745** | **256,384** | **158,361** | 263,096 | 170,676 | 92,420 |
| Leasehold improvements | **997,899** | **215,649** | **782,250** | 992,831 | 109,777 | 883,054 |
| | **2,585,642** | **1,149,589** | **1,436,053** | 2,153,518 | 679,011 | 1,474,507 |

**Ontario Trillium Foundation**

## NOTES TO FINANCIAL STATEMENTS

March 31, 2000

### 5. GOVERNMENT FUNDING

[a] Effective April 1, 1999, Trillium began to receive funding from the Ministry for a new mandate to be carried out through two programs: the Community and Province-wide Grants Programs. During the fiscal year ended March 31, 2000, Trillium received $100 million of funding. Of this amount, $90 million must be used for the two grant programs and has been recorded as funding received in the continuity of deferred contributions *[note 6[a]]*. The balance of $10 million is available to cover other expenses and is recorded as income in the statement of operations and changes in accumulated net assets *[note 5[b]]*. A summary of how the funding has been recorded in the accounts is as follows:

| | $ |
|---|---|
| **Community and Province-wide Grants Programs** | |
| Grants pledged | 80,502,000 |
| Grants rescinded or recovered related to grants approved after March 31, 1999 | (152,525) |
| Revenue recognized | 80,349,475 |
| Deferred contributions *[note 6[a]]* | 9,650,525 |
| | 90,000,000 |
| Allocation for other expenses recorded as revenue | 10,000,000 |
| | 100,000,000 |

Since April 1996, Trillium has received funding from the Ministry for Partnership Programs which include the Community Connections Program, Access Fund and Community Linkages Program. For the fiscal year ended March 31, 2000, Trillium received $3,500,000 in connection with Partnership Programs. This amount has been recorded as funding received in the continuity of deferred contributions *[note 6[a]]*.

The government funding is subject to Memoranda of Understanding with the Ministry that define how the funds must be invested and distributed.

**Ontario Trillium Foundation**

# NOTES TO FINANCIAL STATEMENTS

March 31, 2000

[b] Revenue from the Ministry recorded in the statement of operations and changes in accumulated net assets consists of the following:

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| Funding for grants pledged | | |
| Community and Province-wide Grants Programs | **80,502,000** | — |
| Partnership Programs | **3,548,400** | 1,029,596 |
| Grants rescinded or recovered related to grants approved after March 31, 1999 in the Community and Province-wide Grants Programs | **(152,525)** | — |
| Grants rescinded or recovered in the Partnership Programs | **(150,048)** | — |
| Allocation for other expenses | **10,000,000** | 11,958,972 |
| | **93,747,827** | 12,988,568 |

## 6. DEFERRED CONTRIBUTIONS AND GRANTS PAYABLE

[a] Deferred contributions represent funding received from the Ministry that has not yet been pledged as grants. The continuity of deferred contributions is as follows:

| | 2000 | | | 1999 |
|---|---|---|---|---|
| | **Community and Province-wide Grants Programs**<br>$ | **Partnership Programs**<br>$ | **Total**<br>$ | **Total**<br>$ |
| **Deferred contributions, beginning of year** | — | 4,475,144 | 4,475,144 | 1,504,740 |
| Funding received *[note 5[a]]* | 90,000,000 | 3,500,000 | 93,500,000 | 4,000,000 |
| Grants pledged | (80,502,000) | (3,548,400) | (84,050,400) | (1,029,596) |
| Grants rescinded or recovered related to grants approved after March 31, 1999 | 152,525 | — | 152,525 | — |
| Grants rescinded or recovered | — | 150,048 | 150,048 | — |
| **Deferred contributions, end of year** | 9,650,525 | 4,576,792 | 14,227,317 | 4,475,144 |

**Ontario Trillium Foundation**

# NOTES TO FINANCIAL STATEMENTS

March 31, 2000

[b] Once Trillium pledges grants for distribution, the grants are recorded as grants payable. Grants pledged and not yet distributed are payable, subject to the receipt of funds by Trillium and to certain performance conditions placed on the recipients. The continuity of grants payable is as follows:

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| **Grants pledged** | | |
| Community and Province-wide Grants Programs | **80,502,000** | — |
| Partnership Programs | **3,548,400** | 1,029,596 |
| Other | **478,700** | 9,186,815 |
| | **84,529,100** | 10,216,411 |
| Grants rescinded | **(1,120,300)** | (525,797) |
| Grants paid | **(37,729,121)** | (11,844,900) |
| Net change in grants payable | **45,679,679** | (2,154,286) |
| Grants payable, beginning of year | **14,920,734** | 17,075,020 |
| **Grants payable, end of year** | **60,600,413** | 14,920,734 |

Grants are payable to various organizations in the fiscal years ending March 31 as follows:

| | $ |
|---|---|
| 2001 | 37,511,413 |
| 2002 | 15,959,600 |
| 2003 | 5,740,300 |
| 2004 | 1,240,400 |
| 2005 | 148,700 |
| | 60,600,413 |

**Ontario Trillium Foundation**

# NOTES TO FINANCIAL STATEMENTS

March 31, 2000

## 7. NET ASSETS

The changes in the components of the net assets are as follows:

| | 2000 | | | 1999 |
|---|---|---|---|---|
| | Unrestricted net assets $ | Invested in capital assets $ | Total $ | Total $ |
| **Net assets, beginning of year** | (425,585) | 1,474,507 | 1,048,922 | 1,298,187 |
| Excess (deficiency) of revenue over expenses for the year | 8,259,557 | (470,578) | 7,788,979 | (249,265) |
| Purchase of capital assets | (432,124) | 432,124 | — | — |
| **Net assets, end of year** | 7,401,848 | 1,436,053 | 8,837,901 | 1,048,922 |

## 8. NON-GRANT CONTRIBUTIONS TO THE COMMUNITY

Non-grant contributions to the community are charitable activities other than grants, such as partnerships with other organizations, projects initiated by Trillium and technical assistance to community organizations. Costs shown as other non-grant charitable contributions represent expenses allocated from current operations.

| | 2000 $ | 1999 $ |
|---|---|---|
| Research Project - Community Profiles | 50,000 | — |
| Research Projects - Evaluations of Grant Clusters | — | 39,700 |
| Video Production for Youth Grants | — | 25,800 |
| Production of Report "Building Caring Communities" | — | 4,800 |
| Production of Reports in "White Paper" series | — | 11,900 |
| Other non-grant charitable contributions | 48,828 | 80,130 |
| | 98,828 | 162,330 |

**Ontario Trillium Foundation**

# NOTES TO FINANCIAL STATEMENTS

March 31, 2000

## 9. COMMITMENTS

[a] Trillium has provided a $360,000 letter of credit to its landlord to support its obligations under the lease at its new premises. No amount has been drawn as at March 31, 2000.

[b] Future minimum annual rental payments for premises under operating leases to 2008, net of recoveries of $36,295 from subtenants, are as follows:

| | $ |
|---|---|
| 2001 | 152,706 |
| 2002 | 140,003 |
| 2003 | 148,762 |
| 2004 | 245,113 |
| 2005 and thereafter | 960,026 |

## 10. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2000 financial statements.

# ROM

# AUDITORS' REPORT AND FINANCIAL STATEMENTS

**To the Trustees of The Royal Ontario Museum**

We have audited the balance sheet of The Royal Ontario Museum as at June 30, 1999 and the statements of operations, changes in net deficit and cash flows for the year then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Museum as at June 30, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Toronto, Canada, July 30, 1999

Ernst & Young LLP

Chartered Accountants

ROM

## BALANCE SHEET as at June 30, 1999

*(in thousands of dollars)*

| | Notes | 1999 | 1998 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash and short-term investments | 3 | 731 | 1,956 |
| Due from The Royal Ontario Museum Foundation | 16 | 260 | |
| Other accounts receivable | | 1,120 | 986 |
| Inventories | | 984 | 796 |
| Deferred exhibition costs and other assets | | 346 | 1,074 |
| **Total Current Assets** | | **3,441** | **4,812** |
| Other investments | 3 | 1,955 | 5,085 |
| Other assets | | 475 | 475 |
| Deferred pension costs | 17 | 2,538 | 2,135 |
| Capital assets | 4 | 57,058 | 56,684 |
| | | 65,467 | 69,191 |
| **LIABILITIES AND NET DEFICIT** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | | 3,475 | 4,918 |
| Deferred revenue | 6 | 4,090 | 3,879 |
| | | **7,565** | **8,797** |
| Deferred capital contributions | 7 | 58,730 | 61,433 |
| Net deficit | | | |
| Operating deficit | 8 | (2,343) | (2,842) |
| Invested in capital assets | 9 | 283 | 336 |
| Board restricted | 10 | 1,232 | 1,467 |
| | | (828) | (1,039) |
| | | 65,467 | 69,191 |

On behalf of the Board

Steve Lowden
Steve Lowden–Trustee

Harriet Walker
Harriet Walker–Trustee

(see accompanying notes)

(Incorporated by Special Act of the Ontario Legislature as a corporation without share capital)

ROM

## STATEMENT OF OPERATIONS

*(in thousands of dollars)*

| | Notes | 1999 | 1998 |
|---|---|---|---|
| **REVENUES:** | | | |
| Grants | 11 | 22,332 | 22,408 |
| Admission fees | | 2,676 | 2,424 |
| Museum programs | | 1,441 | 1,541 |
| Ancillary services | | 8,197 | 6,574 |
| Investment income | 12 | 39 | 32 |
| Donations - Gifts in kind | | 1,296 | 2,485 |
| Amortization of deferred capital contributions | | 3,879 | 4,182 |
| Other | | 1,219 | 1,001 |
| **Total revenues** | | **41,079** | **40,647** |
| **EXPENSES** | | | |
| Curatorial and collection management | | 9,488 | 8,679 |
| Building, security and visitor services | | 6,412 | 6,133 |
| Ancillary services | | 6,749 | 5,404 |
| General and administration | | 3,305 | 2,915 |
| Education and public programs | | 2,239 | 2,647 |
| Library and information services | | 1,851 | 1,538 |
| Exhibition and gallery development | | 1,224 | 1,498 |
| Marketing and public relations | | 1,444 | 1,331 |
| Temporary exhibitions | | 1,482 | 1,271 |
| Artifacts and specimens | | | |
| - Gifts in kind | | 1,296 | 2,485 |
| - Purchased | | 1,416 | 701 |
| Amortization of capital assets | | 3,962 | 4,270 |
| **Total expenses** | 13 | **40,868** | **38,872** |
| Excess of revenues over expenses before restructuring costs | | 211 | 1,775 |
| Restructuring costs | | 0 | (1,810) |
| Excess (deficiency) of revenue over expenses | | 211 | (35) |

(see accompanying notes)

ROM

## STATEMENT OF CASH FLOWS

*(in thousands of dollars)*

| | 1999 | 1998 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Excess (deficiency) of revenues over expenses | 211 | (35) |
| Add (deduct) non-cash items | | |
| Pension income | (403) | (913) |
| Amortization of capital assets | 3,962 | 4,270 |
| Amortization of deferred capital contributions | (3,879) | (4,182) |
| | (109) | (860) |
| Changes in non-cash working capital balances related to operations | | |
| Due from The Royal Ontario Museum Foundation | (260) | 948 |
| Other accounts receivable | (134) | 206 |
| Inventories | (188) | (191) |
| Deferred exhibition costs and other assets | 728 | (501) |
| Accounts payable and accrued liabilities | (1,443) | 2,081 |
| Deferred revenue | 211 | (1,070) |
| | (1,086) | 1,473 |
| **Cash provided by (used in) operating activities** | **(1,195)** | **613** |
| **INVESTING AND FINANCING ACTIVITIES** | | |
| Purchase of capital assets | (4,336) | (1,064) |
| Sale of other investments, net | 3,130 | 1,500 |
| Contributions for capital assets | 1,176 | 515 |
| **Cash provided by (used in) investing and financing activities** | **(30)** | **951** |
| Net increase (decrease) in cash and short-term investments | (1,225) | 1,564 |
| Cash and short-term investments, beginning of year | 1,956 | 392 |
| Cash and short-term investments, end of year | 731 | 1,956 |

## STATEMENT OF CHANGES IN NET DEFICIT

*(in thousands of dollars)*

| | | 1999 | | | | 1998 |
|---|---|---|---|---|---|---|
| | Notes | Operating deficit (note 8) | Invested in capital assets (note 9) | Board restricted (note 10) | Total | Total |
| **Balance, beginning of year** | | **(2,842)** | **336** | **1,467** | **(1,039)** | **(1,004)** |
| Excess (deficiency) of revenues over expenses | | 211 | | | 211 | (35) |
| Net change in invested in capital assets | 9 | 53 | (53) | | 0 | |
| Transfer from board restricted | 10 | 235 | | (235) | 0 | |
| Balance, end of year | | (2,343) | 283 | 1,232 | (828) | (1,039) |

(see accompanying notes)

ROM

The Royal Ontario Museum – Year Ended June 30, 1999

# NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999

## 1. General

The Royal Ontario Museum (the "Museum") is a scheduled agency of the Province of Ontario incorporated without share capital by Special Act of the Ontario Legislature. The Museum is Canada's largest museum and one of the few of its kind to explore both the art and archaeology of human cultures and the history of the natural world. The Museum's mission is to inspire wonder and build understanding of human cultures and the natural world.

The Museum is registered as a charitable organization under the Income Tax Act (Canada) (the "Act") and, as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes. In order to maintain its status as a registered charity under the Act, the Museum must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

## 2. Summary of significant accounting policies

The financial statements have been prepared in accordance with generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

**Revenue recognition** The Museum follows the deferral method of accounting for contributions, that include donations and government grants. Contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection reasonably assured. Donations are recorded on a cash basis since pledges are not legally enforceable claims.

Contributions externally restricted for purposes other than endowment are deferred and recognized as revenue in the year in which the related expenses are recognized. Externally restricted contributions for capital assets are deferred and amortized over the life of the related capital asset. Endowment contributions are recognized as direct increases in net assets in the year in which they are received.

**Investments** Investments are recorded at market value. Investment income consists of interest, dividends, realized gains (losses) and the net change in unrealized gains and losses.

**Inventories** Inventories, which consist primarily of gift shop items held for sale, publications and supplies, are stated at the lower of average cost and net realizable value.

**Deferred exhibition and other costs** Costs of exhibitions are deferred until the exhibitions are opened to the public and then are expensed over the period of the exhibitions to which they relate.

**Deferred pension costs** Pension income (expense) is determined on an actuarial basis in accordance with generally accepted accounting principles. Pension costs for current services are charged to income during the year in which the services have been rendered. The cost of past services as well as actuarial gains or losses which have not yet been recognized in income are amortized on a straight-line basis over a period of 16 years.

**Other post-employment benefit obligations** Post-employment benefits for extended health and dental care are accounted for on a cash basis.

**Capital assets** Land is carried at cost. Purchased capital assets are stated at acquisition cost. Contributed capital assets are recorded at fair market value at the date of contribution. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---:|
| Building | 40 years |
| Galleries | 20 years |
| Major capital projects | 5 to 10 years |
| Furniture and equipment | 4 to 10 years |

**Artifacts and specimens** The value of artifacts and specimens has been excluded from the balance sheet. Gifted artifacts and specimens are recorded as revenue at values based on appraisals by independent appraisers. The acquisition of both gifted and purchased artifacts and specimens is expensed.

**Contributed materials and services** Because of the difficulty in determining their fair market value, contributed materials and services are not recognized in the financial statements.

ROM

**The Royal Ontario Museum – Year Ended June 30, 1999**

## 3. Investments

Investments, which are recorded at market value and approximate cost, consist of the following:

*(in thousands of dollars)*

| | 1999 | 1998 |
|---|---|---|
| Cash and short-term investments | 2,470 | 5,807 |
| Canadian bonds | 191 | 1,201 |
| Canadian preferred shares | 24 | 26 |
| Accrued interest | 1 | 7 |
| | 2,686 | 7,041 |
| Less amounts recognized as other investments | 1,955 | 5,085 |
| [illegible] | [illegible] | [illegible] |

The amount of assets classified as non-current represents the assets held for unspent deferred capital contributions [note 7].

## 4. Capital assets

[a] Capital assets consist of the following:

*(in thousands of dollars)*

| | 1999 | | 1998 | |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| Building | 54,912 | 24,619 | 54,912 | 23,242 |
| Galleries | 35,336 | 11,377 | 31,450 | 9,628 |
| Major capital projects | 9,288 | 6,765 | 8,869 | 6,013 |
| Furniture and equipment | 709 | 426 | 687 | 351 |
| | 100,245 | 43,187 | 95,918 | 39,234 |
| Accumulated amortization | 43,187 | | 39,234 | |
| [illegible] | [illegible] | | [illegible] | |

[b] The change in net book value of capital assets is due to the following:

*(in thousands of dollars)*

| | 1999 | 1998 |
|---|---|---|
| Balance, beginning of year | 56,684 | 59,890 |
| Purchase of capital assets funded by restricted capital contributions | 4,306 | 854 |
| Purchase of capital assets funded internally | 30 | 210 |
| Amortization of capital assets | (3,962) | (4,270) |
| Balance, end of year | 57,058 | 56,684 |

## 5. Artifacts and specimens

As at June 30, 1999, the collection consisted of approximately 5,950,000 artifacts and specimens. During the year the Museum added approximately 66,000 objects to its collections through the acquisition and purchase of artifacts.

## 6. Deferred revenue

Deferred revenue represents government, corporate and The Royal Ontario Museum Foundation (the "Foundation") grants related primarily to next year's operations.

ROM

The Royal Ontario Museum – Year Ended June 30, 1999

## 7. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of grants and donations received for the purchase of capital assets and gallery development. The amortization of capital contributions is recorded as revenue in the Statement of Operations. The changes in the deferred capital contributions balance are as follows:

*(in thousands of dollars)*

| | Notes | 1999 | 1998 |
|---|---|---|---|
| Balance, beginning of year | | 61,433 | 65,100 |
| Amortization of deferred capital contributions | | (3,879) | (4,182) |
| Investment income | 12 | 197 | 177 |
| Restricted contributions received for capital asset purchases | | 979 | 338 |
| Balance, end of year | | 58,730 | 61,433 |

## 8. Operating deficit

The operating deficit of $2,343,000 (1998 – $2,842,000) resulted from the corporate restructuring that took place during 1996 and 1998. It is the Museum's intention to eliminate this deficit by operating with a planned excess of revenues over expenses for the next four years.

## 9. Net assets invested in capital assets

[a] The net assets invested in capital assets consist of the following:

*(in thousands of dollars)*

| | 1999 | 1998 |
|---|---|---|
| Capital assets, net | 57,058 | 56,684 |
| Less amounts financed by deferred capital contributions | 56,775 | 56,348 |
| Balance, end of year | 283 | 336 |

[b] The net change in net assets invested in capital assets is calculated as follows:

*(in thousands of dollars)*

| | 1999 | 1998 |
|---|---|---|
| Purchase of capital assets funded internally | (30) | (210) |
| Amortization of capital assets | 3,962 | 4,270 |
| Amortization of deferred capital contributions | (3,879) | (4,182) |
| Net change in net assets invested in capital assets | 53 | (122) |

## 10. Board restricted net assets

A summary of board restricted net assets at June 30 is as follows:

*(in thousands of dollars)*

| | 1999 | 1998 |
|---|---|---|
| Museum restricted reserves | 515 | 551 |
| Departmental reserves | 717 | 916 |
| | 1,232 | 1,467 |

Museum restricted reserves represent funds reserved in accordance with the directives issued by the Board of Trustees or by Museum management.

Departmental reserves represent funds received from cross-appointment teaching and other activities of staff and held in accordance with Museum policy to assist in the financing of departmental activities.

ROM

The Royal Ontario Museum – Year Ended June 30, 1999

## 11. Grants

Grants consist of the following:

*(in thousands of dollars)*

| | Notes | 1999 | 1998 |
|---|---|---|---|
| Province of Ontario | | 18,838 | 18,743 |
| Government of Canada | | 280 | 232 |
| The Royal Ontario Museum Foundation | 16 | 2,957 | 1,957 |
| Corporate | | 192 | 315 |
| Other | | 65 | 1,161 |
| | | 22,332 | 22,408 |

## 12. Investment income

Investment income earned during the year is recorded as follows:

*(in thousands of dollars)*

| | Notes | 1999 | 1998 |
|---|---|---|---|
| Total investment income | | 236 | 209 |
| Recorded in deferred capital contributions | 7 | 197 | 177 |
| Recorded as revenue in the Statement of Operations | | 39 | 32 |

## 13. Expenses

Expenses are reported in the Statement of Operations on a functional basis. Expenses excluding restructuring costs by category comprise:

*(in thousands of dollars)*

| | 1999 | 1998 |
|---|---|---|
| Salaries and benefits | 20,659 | 17,370 |
| Purchased goods and services | 20,209 | 21,502 |
| | 40,868 | 38,872 |

## 14. Museum volunteers

During the year, Museum volunteers contributed approximately 54,000 hours in support of the Museum. Their activities include guided gallery tours and a variety of programs that enrich the visitor's experience at the Museum; world and local travel packages that promote the Museum's image in Ontario and throughout the world; and many other support activities.

In addition, the net income generated by the Museum volunteers and the ROM Reproductions Association, an independent volunteer organization affiliated with the Museum, goes directly to support the Museum's activities. During the year ended June 30, 1999, the Museum volunteers contributed $100,000 (1998 – $90,000) to the Foundation for acquisition and research projects at the Museum and for the Hands-on Biodiversity Gallery. The ROM Reproductions Association contributed $85,000 (1998 – $80,000) to the Foundation for the purchase of artifacts and specimens.

## 15. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000 and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Museum, including those related to the efforts of donors, suppliers, or other third parties, will be fully resolved.

## 16. The Royal Ontario Museum Foundation

The Foundation was incorporated on July 1, 1992 to co-ordinate all private-sector fundraising activities undertaken on behalf of the Museum and its affiliates. The objective of the Foundation is to raise funds available for enhancing exhibitions and public programs, research and acquisitions.

The accounts of the Foundation are presented separately and are not consolidated in these financial statements. As at June 30, 1999 the fund balances of the Foundation are as follows:

*(in thousands of dollars)*

| | 1999 | 1998 |
|---|---|---|
| Unrestricted funds | 210 | 322 |
| Restricted funds | | |
| Available currently | 4,761 | 5,350 |
| Available at a future date | 6,571 | 6,084 |
| Internally restricted | 197 | 515 |
| | 11,529 | 11,949 |
| Endowment funds | | |
| Externally restricted | 7,064 | 6,961 |
| Internally restricted | 2,061 | 1,687 |
| | 9,125 | 8,648 |
| | 20,864 | 20,919 |

During the year, the Foundation granted $3,959,000 (1998 – $2,378,000) to the Museum. As at June 30, 1999 an amount of $435,000 (1998 – $468,000) of these grants is included in deferred revenue and an amount of $1,035,000 (1998 – $337,000) of these grants is included in deferred capital contributions.

## 17. Pension plans

The Museum uses an accrued benefit actuarial method and best estimate assumptions to value pension plan obligations. The excess of pension plan assets over the present value of pension plan benefits and adjustments arising from past service benefits and experience gains and losses are amortized over the expected average remaining service life of the employee group. Current service costs are expensed during the year. The difference between the funding contributions and the amounts recorded as pension expenses or credits, which represents a deferred pension asset, is included in deferred pension costs on the balance sheet.

Based on the January 1, 1998 actuarial valuation and management's best estimate assumptions, the present value of the accrued pension benefits as at June 30, 1999 amounted to $33,851,000 (1998 – $27,407,000), and the market related value of the net assets available to provide for these benefits was $43,285,000 (1998 – $39,764,000).

### Royal Ontario Museum employees paid $100,000 or more in 1998 calendar year (unaudited)

| Name | Position | Salary Paid | Taxable Benefits |
|---|---|---|---|
| Lindsay Sharp | President & CEO | $176,003 | $23,159 |
| Michael Shoreman | Senior Vice President | $119,953 | $342 |
| David Pendergast | V.P. Collections & Research | $115,203 | $328 |

*Prepared under the Public Sector Salary Disclosure Act, 1996*

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

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***Auditor's Report***

To the Toronto Area Transit Operating Authority
and to the Minister of Transportation

I have audited the balance sheet of the Toronto Area Transit Operating Authority as at March 31, 2000 and the statement of operations and deficiency for the period from August 7, 1999 to March 31, 2000. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2000 and the results of its operations for the period from August 7, 1999 to March 31, 2000 in accordance with generally accepted accounting principles.

Toronto, Ontario
June 15, 2000

J.R. McCarter, CA
Assistant Provincial Auditor (Acting)

## TORONTO AREA TRANSIT OPERATING AUTHORITY

**Balance Sheet**
**March 31, 2000**

| | 2000<br>($000's) |
|---|---|
| **ASSETS** | |
| **Current** | |
| Due from Province of Ontario | 9,374 |
| **Capital Assets Pledged as Collateral** (Note 3) | 258,037 |
| | 267,411 |
| **LIABILITIES AND DEFICIENCY** | |
| **Current Liabilities** | |
| Current portion of long-term debt (Note 4) | 1,204 |
| Interest on long-term debt | 8,968 |
| | 10,172 |
| **Long Term Debt** (Note 4) | 446,036 |
| **Deficiency** | (188,797) |
| | 267,411 |

See accompanying notes to financial statements.

Approved by:

Chair

Board Member

## TORONTO AREA TRANSIT OPERATING AUTHORITY

### Statement of Operations and Deficiency
### For the Period August 7, 1999 to March 31, 2000

| | 2000<br>($000's) |
|---|---|
| **Revenue** | |
| Operating subsidies from the Province | 24,697 |
| **Expenses** | |
| Amortization of capital assets | 14,007 |
| Amortization of deferred foreign exchange loss on long-term debt | 3,324 |
| Interest on long-term debt | 23,587 |
| | 40,918 |
| **Excess of Expenses over Revenue** | (16,221) |
| **Equity, beginning of period** | 435,194 |
| **Transfer of net assets to Greater Toronto Transit Authority** (Note 1) | (607,770) |
| **Deficiency, end of period** | (188,797) |

## TORONTO AREA TRANSIT OPERATING AUTHORITY

**Notes to Financial Statements**
**March 31, 2000 (dollars in thousands)**

### 1. FUNDING AND GREATER TORONTO SERVICES BOARD

On December 18, 1998 the Province gave Royal Assent to the *Greater Toronto Services Board Act, 1998.* Pursuant to this Act, on August 7, 1999, the transit business of the Toronto Area Transit Authority (Authority) was transferred to the Greater Toronto Transit Authority (GTTA) without compensation. The transfer included all assets (including $58,777 in cash) and liabilities and employees, except for the railway rolling stock and related debt represented by conditional sales agreements described in Note 4, which the Authority continues to administer.

### 2. ACCOUNTING POLICIES

These financial statements are prepared by management in accordance with generally accepted accounting principles. The accounting policies are as follows:

#### (a) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Locomotives | 20 years |
| Other railway rolling stock | 25 years |
| Locomotive overhauls | 5 years |

#### (b) Foreign currency translation

Long-term debt payable in foreign currencies is translated to Canadian dollars at rates of exchange in effect at the end of the period. Unrealized exchange gains or losses arising on translation are deferred and amortized over the remaining term of the debt.

#### (c) Administrative expenses

Administrative services are provided by the Ministry of Transportation without charge.

### 3. CAPITAL ASSETS

The capital assets are comprised of locomotives and other railway rolling stock pledged as collateral for the long-term debt described in note 4.

| | Cost<br>$ | Accumulated Amortization<br>$ | Net<br>$ |
|---|---|---|---|
| Other Railway Rolling Stock | 363,308 | 163,422 | 199,886 |
| Locomotives | 110,905 | 56,479 | 54,426 |
| Locomotive Overhauls | 7,312 | 3,587 | 3,725 |
| | 481,525 | 223,488 | 258,037 |

## TORONTO AREA TRANSIT OPERATING AUTHORITY

**Notes to Financial Statements**
**March 31, 2000 (dollars in thousands)**

### 4. LONG-TERM DEBT

At the request of the Ontario Minister of Finance, the Authority entered into a financing transaction on March 31, 1994. Under the terms of the transaction, 42 of the locomotives and 243 bi-level cars were sold for $431,530 (US$311,867) and immediately repurchased from the same counterparty at the same price under conditional sales agreements (CSAs) maturing on July 1, 2006. The proceeds from the sales were returned to the Province of Ontario net of transaction costs of $4,271. The transaction has been accounted for as a collateralized financing. The debt is collateralized by the locomotives and bi-level cars. The Authority retains the right to use the locomotives and bi-level cars and is liable for maintenance and all other associated obligations. On August 7, 1999, the Authority signed an equipment lease agreement leasing these locomotives and bi-level cars to the Greater Toronto Transit Authority (GTTA) at a nominal amount of one dollar annually. Under this equipment lease agreement which expires on July 1, 2006, GTTA is liable for the maintenance and all other associated obligations.

Under the CSAs, the Authority agreed to repay the obligation and interest thereon over the 12-year period. Pursuant to a memorandum of understanding dated December, 1993 with the Minister of Finance, and affirmed by the Deputy Minister of Transportation in a letter dated July 9, 1997, the Province will provide funds to the Authority in a timely manner and in the amounts necessary to enable the Authority to satisfy the debt and interest obligations. To minimize the risk of fluctuations in foreign exchange rates to the Ontario government, the Ministry of Finance has entered into a currency swap agreement. At year end, approximately 85% of the debt was hedged by the currency swap. As the Authority is not a party to the currency swap agreement, the effects of this agreement are not reflected in these financial statements. Due to the unique nature of the long-term debt, it is not practical to determine a fair value of this transaction.

| CSA Number | Maximum Loan US$ | Average Interest Rate % | Balance at March 31, 2000 US$ | Collateral |
|---|---|---|---|---|
| 1 | 14,487 | 7.27536 | 14,388 | Bi-level cabs and coaches |
| 2 | 108,926 | 7.26143 | 108,682 | Bi-level cabs and coaches |
| 3 | 23,794 | 7.38419 | 23,284 | Locomotives |
| 4 | 70,319 | 7.28517 | 69,941 | Bi-level cabs and coaches |
| 5 | 60,702 | 7.36798 | 59,690 | Bi-level coaches |
| 6 | 41,926 | 7.39563 | 41,773 | Locomotives |
| | 320,154 | | 317,758 | |

| | |
|---|---|
| Translated to Canadian Dollars at | 1.4494 |
| CAN$ | 460,558 |
| Deferred foreign exchange loss net of accumulated amortization of $7,559 | (13,318) |
| | 447,240 |
| Less: Current portion | 1,204 |
| | 446,036 |

## TORONTO AREA TRANSIT OPERATING AUTHORITY

**Notes to Financial Statements**
**March 31, 2000 (dollars in thousands)**

### 4. LONG-TERM DEBT (CONTINUED)

The annual repayments on a fiscal year basis in US dollars that the Authority is required to make are as follows:

| Fiscal Year | Principal Repayment US$ | Interest US$ | Total US$ |
|---|---|---|---|
| 2000-2001 | 831 | 23,248 | 24,079 |
| 2001-2002 | 1,492 | 23,192 | 24,684 |
| 2002-2003 | 2,334 | 23,071 | 25,405 |
| 2003-2004 | 2,753 | 22,889 | 25,642 |
| 2004-2005 | 8,069 | 22,597 | 30,666 |
| 2005-2006 | 8,911 | 22,073 | 30,984 |
| 2006-2007 | 293,368 | 10,727 | 304,095 |
|  | 317,758 | 147,797 | 465,555 |

### 5. COMPARATIVE FIGURES

Comparative figures are not provided because of the significant changes in the Authority's operations and therefore, inclusion of the fiscal 1999 comparative figures would not be meaningful.

### 6. STATEMENT OF CASH FLOWS

A statement of cash flows was not prepared as the information which it would contain is readily available from these financial statements.

November 5, 1999
(Except for note 10(a), which is at
November 12, 1999)

## Auditors' Report

**To the Members of the**
**Toronto Area Transit Operating Authority, as of August 6, 1999**
**The Minister of Transportation and The Provincial Auditor**

We have audited the balance sheet of **Toronto Area Transit Operating Authority** as at August 6, 1999 and the statements of equity, operations and changes in financial position for the period from April 1, 1999 to August 6, 1999. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at August 6, 1999 and the results of its operations and the changes in its financial position for the period from April 1, 1999 to August 6, 1999 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

**Chartered Accountants**

# Toronto Area Transit Operating Authority

Balance Sheet

**As at August 6, 1999** (note 1)

(in thousands of dollars)

| | $ |
|---|---|
| **Assets** | |
| **Current assets** | |
| Cash and cash equivalents | 58,777 |
| Accounts receivable | 3,459 |
| Deposit with Canadian National Railway Company | 7,021 |
| Due from the Province of Ontario – interest on long-term debt | 3,674 |
| Spare parts and supplies | 1,411 |
| Prepaid expenses | 1,295 |
| | 75,637 |
| **Capital assets** (note 3) | 607,770 |
| **Locomotives and other railway rolling stock, pledged as collateral – net of amortization of $209,480** (note 4) | 272,044 |
| | 879,814 |
| | 955,451 |
| **Liabilities** | |
| **Current liabilities** | |
| Accounts payable and accrued liabilities | 51,906 |
| Unearned revenue in respect of tickets sold and not used | 2,534 |
| Current portion of long-term debt (note 4) | 445 |
| Interest on long-term debt | 3,674 |
| Advanced funding (note 12) | 17,523 |
| | 76,082 |
| **Long-term debt** (note 4) | 444,175 |
| **Contingencies** (notes 1 and 10) | |
| **Equity** | 435,194 |
| | 955,451 |

**Signed on behalf of the Members**

Eldred King Director

Emil · Kolb. Director

# Toronto Area Transit Operating Authority

Statement of Equity

**For the period from April 1, 1999 to August 6, 1999** (note 1)

(in thousands of dollars)

| | $ |
|---|---|
| **Capital asset equity – Beginning of period** | 447,751 |
| Capital contributions from the City of Toronto and the Regional Municipalities of Durham, Halton, Peel, York and Hamilton-Wentworth | 20,671 |
| Capital contribution – funding surplus (note 12) | 3,857 |
| Less | |
| Amortization of capital assets | (23,730) |
| Book value of assets disposed | (265) |
| **Capital asset equity – End of period** | 448,284 |
| **Equity contribution from the Province of Ontario for long-term debt** | (8,855) |
| **Cumulative amortization of foreign exchange losses on long-term debt** | (4,235) |
| **Equity – End of period** | 435,194 |

## Toronto Area Transit Operating Authority

Statement of Operations

**For the period from April 1, 1999 to August 6, 1999** (note 1)

(in thousands of dollars)

| | $ |
|---|---|
| **Revenue** | |
| Passenger service | 44,735 |
| Sundry revenue (note 6) | 3,523 |
| | 48,258 |
| **Expenses** | |
| Labour and administration (note 8) | 19,527 |
| Services | 3,004 |
| Supplies | 378 |
| Facility maintenance | 7,690 |
| Equipment maintenance | 10,598 |
| Operations | 16,843 |
| Loss on disposal of capital assets | 258 |
| | 58,298 |
| **Loss from operations before the undernoted** | (10,040) |
| Amortization of capital assets | 23,730 |
| Amortization of deferred foreign exchange loss on long-term debt | 1,877 |
| Interest on long-term debt | 12,479 |
| **Loss before subsidies** | (48,126) |
| **Subsidies** | |
| Province of Ontario | |
| Interest on long-term debt | 10,454 |
| The City of Toronto and the Regional Municipalities of Durham, Halton, Peel, York and Hamilton-Wentworth | |
| Operating | 17,397 |
| **Loss for the period** | (20,275) |

# Toronto Area Transit Operating Authority

## Statement of Changes in Financial Position

**For the period from April 1, 1999 to August 6, 1999** (note 1)

(in thousands of dollars)

| | $ |
|---|---|
| **Cash provided by (used in)** | |
| **Operating activities** | |
| Loss for the period | (20,275) |
| Non-cash items | |
| Amortization of capital assets | 23,730 |
| Amortization of deferred foreign exchange loss | 1,877 |
| Loss on disposal of capital assets | 258 |
| | 5,590 |
| Net change in non-cash working capital items | (39,269) |
| | (33,679) |
| **Investment activities** | |
| Capital assets additions | (24,528) |
| Proceeds on capital assets disposals | 7 |
| | (24,521) |
| **Financing activities** | |
| Increase in long-term debt | 2,025 |
| Capital asset disposition | (265) |
| Province of Ontario | |
| Funds paid to the Greater Toronto Transit Authority | (106,514) |
| The City of Toronto and the Regional Municipalities of Durham, Halton, Peel, York and Hamilton-Wentworth | |
| Capital contributions | 20,671 |
| | (84,083) |
| **Net decrease in cash and cash equivalents** | (142,283) |
| **Cash and cash equivalents – Beginning of period** | 201,060 |
| **Cash and cash equivalents – End of period** | 58,777 |

# Toronto Area Transit Operating Authority

Notes to Financial Statements

**August 6, 1999**

(in thousands of dollars)

## 1 Funding and Greater Toronto Services Board (GTSB)

Prior to January 1, 1998, the Authority, which operates under the Toronto Area Transit Operating Authority Act (TATOA Act), received subsidies from the Province of Ontario (the Province) for operating and capital funding purposes. Effective January 1,1998, Schedule E of the Services Improvement Act amended the TATOA Act by transferring the responsibility for the Authority's operating and capital funding to the City of Toronto and the Regional Municipalities of Durham, Halton, Peel, York and Hamilton-Wentworth. Funding is now provided on a calendar year basis. In addition, pursuant to a memorandum of understanding dated December 1993 and affirmed by the Deputy Minister of Transportation in a letter dated July 9,1997, the Province will provide funds to the Authority in a timely manner and in the amounts necessary to enable the Authority to satisfy the long-term debt obligations (August 6, 1999 – $478,513) and interest (for the period from April 1, 1999 to August 6, 1999 – $12,479) when payments fall due (note 4).

On December 18, 1998, the Province gave Royal Assent to Bill 56, an Act to establish the Greater Toronto Services Board and the Greater Toronto Transit Authority (GTTA) and to amend the TATOA Act. The transit business was transferred to the GTTA on August 7, 1999 and these financial statements have been prepared to facilitate the transfer of the business. Substantially all of the business and assets of the Authority were transferred to GTTA for nominal consideration with the exception of the locomotives and other railway rolling stock pledged as collateral which is subject to the Conditional Sale Agreements (long-term debt obligation) and the long-term debt described in note 4. GTTA has entered into a lease agreement for these assets. As provided in Bill 56, the Authority will be reconstituted and shall continue as an entity to administer the Conditional Sales Agreements and the Members of the Authority as of August 6, 1999 will become Members of the GTTA.

# Toronto Area Transit Operating Authority

Notes to Financial Statements

**August 6, 1999**

(in thousands of dollars)

On a pro forma basis the balance sheet of the Authority is as follows:

Pro Forma Balance Sheet
(Unaudited)
As at August 7, 1999

| | $ |
|---|---|
| Assets | |
| Due from Province of Ontario – interest on long-term debt | 3,674 |
| Locomotives and other railway rolling stock, pledged as collateral, leased to GTTA | 272,044 |
| | 275,718 |
| Liabilities | |
| Current liabilities | |
| Interest on long-term debt | 3,674 |
| Current portion of long-term debt | 445 |
| | 4,119 |
| Long-term debt | 444,175 |
| Deficiency – Province of Ontario | (172,576) |
| | 275,718 |

GTTA is to be funded by the Greater Toronto Services Board (GTSB). The GTSB is funded by the City of Toronto and the Regional Municipalities of Durham, Halton, Peel, York and, for GTTA purposes only, Hamilton-Wentworth. The Toronto Area Transit Operating Authority will be funded by the Province of Ontario. The effect, if any, on these financial statements of these arrangements cannot be determined at this time.

# Toronto Area Transit Operating Authority

Notes to Financial Statements

**August 6, 1999**

(in thousands of dollars)

## 2 Summary of significant accounting policies

These financial statements are prepared by management in accordance with generally accepted accounting principles. The significant accounting policies are as follows:

### Spare parts and supplies

Spare parts and supplies are valued at the lower of cost and replacement cost.

### Capital assets

Capital assets are recorded at cost.

The Authority provides for the amortization of the various classes of assets over their estimated useful lives on a straight-line basis as follows:

| | |
|---|---|
| Building and equipment | |
| Shelters and ticket booths | 5 years |
| Other buildings | 20 years |
| Locomotives | 20 years |
| Other railway rolling stock | 25 years |
| Buses | 12 years |
| Parking lots | 20 years |
| Sundry | |
| Furniture and fixtures | 12 years |
| Other | 3 – 5 years |
| Improvements to railway right-of-way and railway plant | 20 years |
| Trackwork and installation | 20 years |
| Leasehold improvements | 20 years |

Viability studies for future expansion represent costs deferred on a project-by-project basis until the viability of the respective project is determined. When the project is finalized, the costs are amortized based on a specific asset category. If a project is abandoned or the costs are considered to be unrecoverable, the deferred costs are charged to operations in the year the determination is made.

### Commuter services revenue

Revenue is recognized when the transportation service is provided. Unearned amounts are reflected in the balance sheet as current liabilities.

### Subsidies

Operating subsidies paid by the Province of Ontario, the City of Toronto and the Regional Municipalities of Durham, Halton, Peel, York and Hamilton-Wentworth are treated as reductions of operating losses. Gains and losses from the disposition of capital assets are included in operations. Capital contributions are included in equity and reduced by the amortization of capital assets over the useful lives of the related assets. The providers of the subsidies have authorized the use of capital contributions for certain types of operating expenses.

# Toronto Area Transit Operating Authority

Notes to Financial Statements
**August 6, 1999**

(in thousands of dollars)

### Foreign currency translation

Long-term monetary liabilities are translated to Canadian dollars at rates of exchange in effect at the end of the period. Unrealized exchange gains or losses arising on translation are deferred and amortized over the remaining terms of the liabilities.

### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include funding, the recovery of capital assets, unearned revenue, amortization of capital assets and contingencies. Actual results could differ from those estimates.

### Financial instruments

The carrying amounts for cash and cash equivalents, accounts receivable, deposits and other receivables, accounts payable and accrued liabilities on the balance sheet approximate fair values because of the limited terms of these instruments. Due to the nature of long-term debt, it is not practicable to establish a fair value due to the unique nature of this transaction. The principal characteristics of this transaction are set forth in note 4.

Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgement, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

## 3 Capital Assets

| | Cost $ | Accumulated amortization $ | Net $ |
|---|---:|---:|---:|
| Land | 112,625 | – | 112,625 |
| Buildings | 226,948 | 91,545 | 135,403 |
| Leasehold improvements | 22,660 | 8,196 | 14,464 |
| Locomotives and other railway rolling stock | 83,843 | 43,265 | 40,578 |
| Improvements to railway right-of-way and railway plant | 394,054 | 214,627 | 179,427 |
| Trackwork and installation | 57,613 | 30,463 | 27,150 |
| Construction in progress | 19,789 | – | 19,789 |
| Buses | 64,616 | 37,637 | 26,979 |
| Parking lots | 69,177 | 25,726 | 43,451 |
| Sundry | 53,436 | 45,532 | 7,904 |
| | 1,104,761 | 496,991 | 607,770 |

# Toronto Area Transit Operating Authority

Notes to Financial Statements

**August 6, 1999**

(in thousands of dollars)

The Authority capitalizes engineering payroll costs where time has been spent on particular capital projects. The amount capitalized for the period from April 1, 1999 to August 6, 1999 was $406.

## 4 Long-term debt

At the request of the Ontario Minister of Finance, the Authority entered into a financing transaction on March 31, 1994. Under the terms of the transaction, forty-two of the locomotives and two hundred and forty-three bi-level cars were sold for $431,530 (US$311,867) and immediately repurchased from the same counterparty at the same price under conditional sales contracts maturing on July 1, 2006. The proceeds from the sales were returned to the Province of Ontario net of transaction costs of $4,271. The transaction has been accounted for as a collateralized financing. The debt is collateralized by the locomotives and bi-level cars. The Authority retains the right to use the locomotives and bi-level cars and is liable for maintenance and all other associated obligations. The Authority cannot lease or sell the locomotives and bi-level cars without the prior written consent of the counterparty to the debt obligation. In addition, the Authority is liable for any costs which reduce the other parties' return on the financing.

Under the agreement, the Authority agreed to repay the obligation and interest thereon over twelve years. The loan balances will also increase in certain periods.

| Contract number | Maximum loan US$ | Average interest rate % | Balance at August 6, 1999 US$ | Collateral |
|---|---|---|---|---|
| 1 | 14,487 | 7.27536 | 14,479 | bi-level cabs and coaches |
| 2 | 108,926 | 7.26143 | 108,874 | bi-level cabs and coaches |
| 3 | 23,794 | 7.38419 | 23,388 | locomotives |
| 4 | 70,319 | 7.28488 | 70,194 | bi-level cabs and coaches |
| 5 | 60,702 | 7.36798 | 59,430 | bi-level coaches |
| 6 | 41,926 | 7.39563 | 41,901 | locomotives |
| | 320,154 | | 318,266 | |
| Translated to Canadian dollars at | | | 1.5035 | |
| CAN$ | | | 478,513 | |
| Deferred foreign exchange loss net of accumulated amortization of $4,235 | | | (33,893) | |
| | | | 444,620 | |
| Less: Current portion | | | 445 | |
| | | | 444,175 | |

# Toronto Area Transit Operating Authority

Notes to Financial Statements

**August 6, 1999**

(in thousands of dollars)

The annual repayments on a fiscal year basis in U.S. dollars that the Authority is required to make are as follows:

| | Principal repayment US$ | Interest US$ | Total US$ |
|---|---|---|---|
| 1999 – 2000 | 508 | 11,639 | 12,147 |
| 2000 – 2001 | 831 | 23,248 | 24,079 |
| 2001 – 2002 | 1,492 | 23,192 | 24,684 |
| 2002 – 2003 | 2,334 | 23,071 | 25,405 |
| 2003 – 2004 | 2,753 | 22,889 | 25,642 |
| 2004 – 2005 | 8,069 | 22,597 | 30,666 |
| 2005 – 2006 | 8,911 | 22,073 | 30,984 |
| 2006 – 2007 Balloon Payment | 293,368 | 10,727 | 304,095 |
| | 318,266 | 159,436 | 477,702 |

Pursuant to a memorandum of understanding dated December 1993, and affirmed by the Deputy Minister of Transportation in a letter dated July 9, 1997, between the Province and the Authority, the Province will provide funds to the Authority in a timely manner and in the amounts necessary to enable the Authority to satisfy the above debt obligation and interest when payments fall due.

## 5 Operating and maintenance agreements

A significant amount of the services provided by the Authority is operated and maintained by outside parties using rolling stock owned by the Authority. These services are governed by the agreements with The Canadian National Railway Company, St. Lawrence and Hudson Railway Company Limited and Bombardier Inc.

## 6 Sundry revenue

| | $ |
|---|---|
| Interest income | 1,344 |
| Rentals – space | 900 |
| Advertising revenue | 214 |
| Commissions – ticket sales | 174 |
| Distribution from Transportation and Railroad Assurance Company | 754 |
| Other | 137 |
| | 3,523 |

# Toronto Area Transit Operating Authority

Notes to Financial Statements

**August 6, 1999**

(in thousands of dollars)

## 7 Commitments

### Leases

Minimum lease payments in each of the next five years ended March 31, the Authority's fiscal year-end, and thereafter are as follows:

| | $ |
|---|---|
| 1999 – 2000 | 2,655 |
| 2000 – 2001 | 3,592 |
| 2001 – 2002 | 3,339 |
| 2002 – 2003 | 3,015 |
| 2003 – 2004 | 2,822 |
| Thereafter | 26,338 |
| | 41,761 |

**The Authority has also committed approximately $35,552 for various capital asset additions over the next fiscal year.**

## 8 Pensions

**The Authority provides pension benefits for substantially all of its permanent employees through participation in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario. The Authority has expensed $805 for pension benefits for the period from April 1, 1999 to August 6, 1999, and included $182 for pension liability in accounts payable and accrued liabilities at August 6, 1999.**

## 9 Remuneration

**Total remuneration of Members of the Board was nineteen thousand dollars during the period from April 1, 1999 to August 6, 1999.**

# Toronto Area Transit Operating Authority

Notes to Financial Statements
**August 6, 1999**

(in thousands of dollars)

## 10 Contingencies

a) There has been an ongoing dispute between the City of Toronto (the City) and the Toronto Terminals Railway Company Limited (the TTR) relating to the rent for lands under Union Station, dating back to 1968. The Authority pays a pro rata share of approximately 38% of the rent. The rent is determined every 21 years. In 1996, an arbitration panel issued a decision respecting the rent to be paid from 1968 to 1989. An appeal to Divisional court was dismissed and the City filed an application for leave to appeal with the Court of Appeal of Ontario. In October 1999, the Court of Appeal rejected the City's Appeal. In addition, the City and the TTR must still confirm the rent for the period from 1989 to 2000.

On November 12, 1999, the Members of the GTTA enacted By-Law No. 10 to establish the TTR/Union Station Reserve Fund in the amount of approximately $11,600, designated for the purchase of TTR assets by GO Transit. This reserve is the excess of the amount accrued for the potential liability relating to GO Transit's obligation for its outstanding share of the claims related to the lease of land beneath Union Station, over the negotiated maximum of $3,000. The negotiated maximum liability was determined under the terms of an agreement between TTR and the City of Toronto for the purchase of TTR assets.

The By-law requires the approval of the Greater Toronto Services Board.

b) The Authority has purchased insurance to cover claims in excess of $5,000 on any one rail accident. The incident at Union Station on November 19, 1997 is the subject of various claims including a class proceeding. The outcome of these claims cannot be determined at this time. However, management believes that the disposition of these matters will not materially exceed the amount provided for in the financial statements. Effective June 1998, the Authority's insurance coverage was revised to cover claims in excess of $1,000.

c) The Authority has also been named in two claims for personal injury relating to GO service in the amount of $18,800. The amount of the loss, if any, cannot be determined at this time. In the opinion of management, the loss, if any, would be significantly less than the claims made.

d) The Authority's obligations regarding unfunded Workplace Safety and Insurance liabilities are the subject of negotiations with the Province of Ontario and the Workplace Safety and Insurance Board. It is expected that the parties shall reach an agreement in the near future to finalize the obligation and provide for the funding.

The Authority and the Province are working with the GTTA to review various properties of the Authority transferring to the GTTA in accordance with Bill 56, to determine whether there are any material environmental issues, and to develop a plan to address those issues which may arise as a result of this review.

The amount of the expenses and the funding thereof cannot be determined at this time.

# Toronto Area Transit Operating Authority

Notes to Financial Statements

**August 6, 1999**

(in thousands of dollars)

## 11 Labour adjustment costs

On August 7, 1999, pursuant to agreements between the Province of Ontario and GO Transit, the Ministry of Transportation has provided a one-time payment of $9,260 to the GTTA relating to obligations respecting the transfer of employees from TATOA to the GTTA.

$4,383 has been paid to eligible employees and the balance will be included in a special reserve account of the GTTA to fund the remaining commitments as they become due.

No amounts related to these agreements have been reflected in the TATOA financial statements for the period ended August 6, 1999.

## 12 Funding surplus and advanced funding

The surplus comprises the excess of the net operating subsidies over the loss from operations before amortization of capital assets, interest on long-term debt and amortization of deferred foreign exchange gain (loss). The surplus for the year ended December 31, 1998 was $42,704. On May 14, 1999, the Members of the Board approved a resolution to return $38,847 to the Minister of Transportation in accordance with the requirements of the Services Improvement Act. The Members of the Board have approved prior resolutions to purchase land in the amount of $3,857 from the balance of the surplus funding for the year ended December 31, 1998.

The ultimate disposition of the funding surplus is determined under the terms of the Services Improvement Act, which amended the Toronto Area Transit Operating Authority Act.

Funding is provided on a monthly basis, based on an annual budget. Funds received prior to actual capital and operating spending are treated as an advance, until the determination of a surplus or deficit, which is done on a calendar year basis. Funding for capital projects received in advance of the spending amounted to approximately $4,004 at August 6, 1999.

## 13 Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Authority's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Authority, including those related to the efforts of suppliers, or other third parties, will be fully resolved.

# Trusts and Other Miscellaneous Financial Statements

## Management's Responsibility

The Deposit Insurance Corporation of Ontario's management is responsible for the integrity and fair presentation of the financial statements included in the annual report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The Corporation maintains systems of internal accounting controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that company assets and liabilities are adequately accounted for and assets safeguarded.

The financial statements have been reviewed by the Corporation's Audit and Finance Committee and have been approved by its Board of Directors. In addition, the financial statements have been examined by KPMG LLP, the auditors, whose report follows.

Andrew

Andrew Poprawa, CA
*President & CEO*

James Maxwell
*Chief Administrative and Financial Officer*

Toronto, Canada
January 24, 2000

## Auditors' Report

KPMG

KPMG LLP

**To the Board of Directors of**
**Deposit Insurance Corporation of Ontario**

We have audited the Statement of Financial Position of Deposit Insurance Corporation of Ontario as at December 31, 1999 and the Statement of Operations and Changes in the Deficiency of the Deposit Insurance Fund and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada
January 24, 2000

**Deposit Insurance Corporation of Ontario**

## Statement of Financial Position

December 31, 1999, with comparative figures for 1998 *(in thousands of dollars)*

| | 1999 | 1998 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 338 | $ - |
| Investments (note 4) | 4,181 | - |
| Accounts and interest receivable | 152 | 148 |
| Deposit insurance advances recoverable | 5,639 | 4,418 |
| Loan receivable | - | 71 |
| Real estate held for resale | - | 1,000 |
| Capital assets (net of accumulated amortization of $2,681 (1998 - $2,452)) | 359 | 495 |
| | $ 10,669 | $ 6,132 |
| **LIABILITIES** | | |
| Borrowings (note 5) | $ - | $16,747 |
| Payables and accruals | 1,829 | 1,367 |
| Premium rebate payable (note 6) | 1,979 | 1,219 |
| Accrual for deposit insurance losses (note 7) | 14,541 | 18,037 |
| Total Liabilities | 18,349 | 37,370 |
| **Deficiency of the Deposit Insurance Fund** | 7,680 | 31,238 |
| | $ 10,669 | $ 6,132 |

Contingencies (note 13)

See accompanying notes to financial statements.

**On behalf of the Board:**

Director

Director

**Deposit Insurance Corporation of Ontario**

## Statement of Operations and Changes in the Deficiency of the Deposit Insurance Fund

Year ended December 31, 1999, with comparative figures for 1998 *(in thousands of dollars)*

| | 1999 | 1998 |
|---|---|---|
| **INCOME** | | |
| Premium income | $25,959 | $25,604 |
| Less: Premium rebate (note 6) | (1,979) | (1,219) |
| Other income | 537 | 564 |
| | 24,517 | 24,949 |
| **EXPENSES** | | |
| Recovery of losses (note 7) | (5,535) | (1,285) |
| Salaries and benefits | 4,118 | 3,975 |
| Future non-pension post-retirement benefits expense (note 11) | 69 | - |
| Interest expense | 83 | 612 |
| Operating expense | 3,008 | 3,609 |
| Recovery of expenses | (1,253) | (952) |
| | 490 | 5,959 |
| **Excess of income over expenses** | 24,027 | 18,990 |
| Deficiency of the Deposit Insurance Fund, beginning of year | | |
| As previously reported | 31,238 | 50,228 |
| Change in accounting policy for future non-pension post-retirement benefits (note 3) | 469 | - |
| As restated | 31,707 | 50,228 |
| **Deficiency of the Deposit Insurance Fund, end of year** | $ 7,680 | $31,238 |

See accompanying notes to financial statements.

**Deposit Insurance Corporation of Ontario**

## Statement of Cash Flows

*Year ended December 31, 1999, with comparative figures for 1998 (in thousands of dollars)*

| | 1999 | 1998 |
|---|---|---|
| **Cash received from (applied to):** | | |
| **Operations:** | | |
| Excess of income over expenses | **$ 24,027** | $ 18,990 |
| Items charged to operations not affecting cash | | |
| Recovery of losses | **(5,535)** | (1,285) |
| (Gain)/Loss on disposal of capital assets | **(5)** | 1 |
| Amortization | **243** | 306 |
| Write down of real estate held for resale | **-** | 200 |
| Gain on sale of real estate held for resale | **(107)** | - |
| | **18,623** | 18,012 |
| Changes in: | | |
| Accounts and interest receivable | **(4)** | (30) |
| Loan receivable | **71** | 50 |
| Payables and accruals | **753** | 1,126 |
| | **820** | 1,146 |
| Net deposit insurance recoveries (claims) (note 7) | **818** | (11,369) |
| | **20,261** | 7,989 |
| **Investing activities:** | | |
| Proceeds on sale of real estate held for resale | **1,107** | - |
| Purchase of capital assets | **(108)** | (307) |
| Proceeds on sale of capital assets | **6** | 2 |
| | **1,005** | (305) |
| **Increase in cash position** | **21,266** | 7,684 |
| Cash position, beginning of year | **(16,747)** | (24,431) |
| **Cash position, end of year** | **$ 4,519** | $(16,747) |
| Supplementary cash flo[illegible]ormation: | | |
| Interest paid during the year | **$ 72** | $ 579 |

Cash position is defined as cash and short-term investments less any borrowings.

See accompanying notes to financial statements.

# Notes to Financial Statements, *Year ended December 31, 1999*

## General

Deposit Insurance Corporation of Ontario is a Schedule III Provincial Crown Corporation without share capital established under the provisions of the Credit Unions and Caisses Populaires Act.

The statutory objects of the Corporation under the Act are to :

- provide deposit insurance to depositors of member institutions
- act as stabilization authority for the credit union and caisse populaire system
- promote standards of sound business practices
- collect and publish statistics
- provide financial assistance to member institutions
- act as administrator of member institutions
- minimize deposit insurance risk and size of claims

The Act empowers the Corporation to assess its member institutions to meet the Corporation's requirements for insurance funding and administrative costs. The Corporation establishes its premium levy annually. The established premium levy is submitted to the Government of Ontario for review and incorporation into the regulations through appropriate amendments as necessary.

## 1. Going concern assumption:

These financial statements have been prepared on the going concern basis, which assumes that assets will be realized and liabilities and obligations will be discharged in the normal course of business. The application of the going concern concept is dependent upon the Corporation's ability to obtain sufficient additional financial resources to meet its liabilities. The Corporation's borrowings are guaranteed by the Minister's guarantee on behalf of the Province of Ontario. The guarantee is for a maximum of $75 million and expires December 31, 2001. The Province of Ontario charges guarantee fees based on one-half of one per cent of the average end of day balance outstanding of any debt obligation subject to the Minister's guarantee.

## 2. Summary of Significant Accounting Policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These financial statements do not reflect the assets, liabilities or operations of credit unions or caisses populaires where the Corporation has been appointed liquidator.

**(a) Premium income:**

Premiums are based on total deposits held by member institutions. Premium income is recognized when earned.

**(b) Provision for losses:**

The provision for losses includes allowances against deposit insurance advances and an accrual for losses for which advances have not been made at the date of the Statement of Financial Position.

Funds advanced in respect of deposit insurance and loans to member institutions are initially recorded at cost. Deposit insurance advances recoverable are presented on the Statement of Financial Position net of allowances thereon.

The accrual for deposit insurance losses includes both provisions for specific losses and a general provision for losses.

Specific provisions for losses in respect of insured deposits are estimated by management and recorded at the time that member institutions are known to have become insolvent *or* when other conditions exist that will likely result in losses to the Corporation.

The general provision for losses reflects management's best estimate of losses on insured deposits arising from the inherent risk in the credit union/caisse populaire system. The provision is established by assessing the aggregate risk in member institutions based on current market and economic conditions, the likelihood of losses and the application of historic loss experience. Future economic conditions are not predictable with certainty and actual losses may vary, perhaps substantially, from management's estimates.

**(c) Pension benefits:**

The Corporation has a defined contribution pension plan covering all of its employees. Earnings are charged with the cost of pension benefits earned by employees as service is rendered. Pension expense is determined by a fixed percentage of the employees' income plus the matching of the employees' contribution to a maximum of 4%. The Corporation assumes no actuarial or investment risk.

**(d) Future non-pension post-retirement benefits:**

Future non-pension post-retirement benefits relate to the Corporation's extended health, dental and life benefits for both active employees for whom a full eligibility date was determined and existing qualified retirees. Commencing in 1999 (note 3), the Corporation accrues obligations under these plans as the employees render the service necessary to earn the future benefits. The cost of these future non-pension post-retirement benefits earned by employees is actuarially determined. Accruals for these costs represent discounted future expenditures for existing retirees and discounted future expenditures during the period of active employment for current employees to an expected retirement date.

**(e) Investments:**

Investments comprise short-term fixed income instruments and are recorded at amortized cost. The discounts are amortized on a straight line basis over the terms of the instruments.

**(f) Capital assets:**

These are recorded at cost. Amortization of furniture and equipment is provided by the diminishing-balance method at the rate of 20 per cent per annum. Computer and related equipment and software are amortized over three years on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

## Notes to Financial Statements, *Year ended December 31, 1999*

**(g) Leases:**
Leases are classified as either capital or operating. A lease which transfers substantially all the benefits and risks incidental to ownership of property is accounted for as if it were an acquisition of an asset and the incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are charged to earnings as incurred.

### 3. Change in accounting policy:

Effective January 1, 1999 the Corporation adopted the accounting recommendations in Canadian Institute of Chartered Accountants *Handbook* Section 3461, *Employee Future Benefits*.

In previous years, the Corporation accounted for costs of its future non-pension post-retirement benefit plans on a pay-as-you-go basis. Under Section 3461, these costs are required to be accrued over the periods in which the employees render services in return for the benefits. The cumulative effect of this accounting policy change as of January 1, 1999, is an increase in accrued liabilities of $469,000 and an increase in deficiency of the deposit insurance fund of $469,000.

The change in accounting policy, as noted above, has been reported separately in the Statement of Operations and Changes in the Deficiency of the Deposit Insurance Fund as an adjustment to the opening balance of the Deficiency of the Deposit Insurance Fund for the year ended December 31, 1999.

### 4. Investments:

The Investment in Bankers Acceptance, which matures on January 24, 2000, has a carrying value of $4,181,000 and a maturity value of $4,200,000.

### 5. Borrowings:

The Corporation has obtained revolving credit facilities, approved by the Ontario Financing Authority, which administers the Minister's guarantee, as follows:

| | **Maximum Credit Available** | **Outstanding as at Dec. 31,1999** |
|---|---|---|
| | (effective Dec. 21,1999)<br>*(thousands)* | |
| Canadian Chartered Bank | | |
| *(at Bankers' Acceptances rates plus 14 basis points)* | $20,000 (expiring Dec. 19, 2000) | Nil |
| *(at Bankers' Acceptances rates plus 28 basis points)* | $30,000 (expiring April 30,2000) | Nil |
| Credit Union Central of Ontario | | |
| *(at Bankers' Acceptances rates plus 14 basis points)* | $10,000 (expiring Dec. 19, 2000) | Nil |

The borrowings are guaranteed by the Minister's guarantee on behalf of the Province of Ontario.

### 6. Premium rebate payable:

The Corporation's board has approved a premium rebate of $1,979,000 as a result of better than expected loss experience in 1999 (1998 - $1,219,000). The rebate is payable in the first quarter of the year 2000.

### 7. Accrual for deposit insurance losses:

The provision for losses includes specific provisions for known or likely losses from specific member institutions and a general provision for losses not identified with specific institutions. That portion of the provision for losses recorded in the year and in previous years which has not yet required payment by the Corporation is shown in liabilities on the Statement of Financial Position as accrual for deposit insurance losses.

| | **1999** | **1998** |
|---|---|---|
| | *(thousands)* | |
| Accrual for deposit insurance losses, beginning of year | **$ 18,037** | $27,177 |
| Changes in respect of member institutions where a loss was identified in the current year : | | |
| - Increase in Accrual for deposit insurance losses | **1,500** | 600 |
| Changes in respect of member institutions where a loss was identified in prior years: | | |
| - Increase in deposit insurance advances recoverable | **1,221** | 3,514 |
| - Decrease in Accrual for deposit insurance losses | **(6,535)** | (1,885) |
| Change in general provision for losses | **(500)** | - |
| | **13,723** | 29,406 |
| Net deposit insurance recoveries (claims) | **818** | (11,369) |
| Accrual for deposit insurance losses, end of year | **$ 14,541** | $18,037 |

The general provision for losses included in the accrual for deposit insurance losses amounted to $3,500,000 (1998 - $4,000,000).

The Corporation has provided deficiency coverage agreements to two credit unions to facilitate the merger of one credit union and the sale of assets of another. These agreements provide protection to the acquiring credit unions in the event that a portion of the principal and income on certain commercial and retail loans is at risk. These amounts are fully provided in the accrual for deposit insurance losses. The coverage is in force on a diminishing basis for four years from the date of the agreement. A fee of one per cent per annum on the diminishing balance is payable by these credit unions to cover the cost of administering the agreements.

### 8. Lease Commitments:

The operating lease for the Corporation's premises is for the term commencing January 1, 1998 and ending August 5, 2007. The future minimum rent is $123,000 for years one to five and $140,000 for years six to ten. In addition, the Corporation is required to pay property taxes and common area maintenance costs.

### 9. Income Taxes:

The Corporation is subject to income taxes under the Income Tax Act. It has accumulated losses for income tax purposes of $48,676,000. They expire as follows:

| Originating Taxation Year | Expiring Taxation Year | Amount *(thousands)* |
|---|---|---|
| 1993 | 2000 | $7,178 |
| 1994 | 2001 | 6,619 |
| 1995 | 2002 | 6,987 |
| 1996 | 2003 | 7,566 |
| 1997 | 2004 | 7,449 |
| 1998 | 2005 | 6,885 |
| 1999 | 2006 | 5,992 |
| | | $48,676 |

Potential tax benefits resulting from these business losses have not been recognized in the financial statements.

### 10. Pension Plan:

In January 1999, the Corporation substantially collapsed the defined benefit pension plan and transferred the applicable past service actuarial values as at December 31,1998 to a defined contribution plan as elected by all its then current employees. All past service costs have been accounted for on the plan revision. The Corporation's pension expense charged to income for 1999 was $321,000. Pension expense for 1998 under the prior defined benefit plan was $179,000.

### 11. Future non-pension post-retirement benefits:

In accordance with the recommendations of CICA *Handbook* Section 3461, *Employee Future Benefits*, the Corporation has provided immediate recognition of the current value of future non-pension post-retirement benefits (refer note 3). The accrued obligation as at December 31, 1999, as actuarially determined, is $538,000. Current service costs, including interest, were $69,000. Future service costs, including interest, are expected to be approximately $69,000 per annum. These costs are subject to actuarial re-evaluation resulting from emerging experience gains and losses.

The assumptions used in the actuarial valuation of the future benefits obligations consisted of: interest rate of 7.25%, rate of compensation increase of 4.5%, annual rate of increase in dental costs of 4.5% and annual rate of increase in medical cost of 8%, grading down to 4.5% per annum over 5 years.

### 12. Directors' Expense:

During the year the directors received an aggregate remuneration of $93,000 (1998 - $96,000). Total directors' expense was $69,000 (1998 - $51,000).

### 13. Contingencies:

The Corporation is subject to various legal actions brought against it in the normal course of business, when acting in the capacity of administrator or liquidator. It is the view of the Corporation's management that these actions will be successfully defended. Accordingly, no provisions have been made in these financial statements.

### 14. Fair Value Disclosure:

The fair value of financial assets and liabilities which include cash, investment, accounts and interest receivable, loan receivable, borrowings, payables and accruals, and premium rebate payable approximate their carrying amounts.

The fair value of deposit insurance advances recoverable and the accrual for deposit insurance losses have not been determined because it is not practicable to determine fair value with sufficient reliability.

### 15. Compensation:

The following information is furnished in compliance with the *Public Sector Salary Disclosure Act, 1996.*

| Employee | Position held | Compensation | Taxable Benefits |
|---|---|---|---|
| Brydges, Barry | Vice President Stab. Services | $121,100 | $ 8,605 |
| Charbonneau, Robert | Vice President Insurance | $113,223 | $ 8,112 |
| Foster, C.William D. | Vice President Asset Management & Recoveries | $130,785 | $ 9,061 |
| Kingston, Tom | Director Administration | $113,131 | $ 6,844 |
| Maxwell, James | Chief Administrative & Financial Officer Corporate Resources | $112,161 | $ 9,510 |
| Poprawa, Andrew | President and CEO | $172,812 | $15,994 |

### 16. Year 2000 Issue:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

### 17. Comparative figures:

Certain comparative figures for 1998 have been restated to conform with the financial statement presentation adopted for 1999.

## MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

## STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2000

### ASSETS

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| Funds on Deposit with the Minister of Finance | 6,098,586 | 8,660,855 |
| | **6,098,586** | **8,660,855** |

### LIABILITIES & FUND BALANCE

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| Net Fund Balance | 6,098,586 | 8,660,855 |
| | **6,098,586** | **8,660,855** |

See accompanying notes to Financial Statements

Approved:

Dina Palozzi

Dina Palozzi
Chief Executive Officer and
Superintendent of Financial Services

## MOTOR VEHICLE ACCIDENT CLAIMS FUND

**(Established under the Motor Vehicle Accident Claims Act)**

### STATEMENT OF FUND
### FOR THE YEAR ENDED MARCH 31, 2000

| | 2000<br>$ | 1999<br>$ |
|---|---|---|
| **RECEIPTS** | | |
| Fee on issue or renewal of driver's licences | 8,366,323 | 6,927,289 |
| Repayment by debtors | 2,567,995 | 2,509,500 |
| Prior year recoveries | 483,493 | 423,017 |
| **TOTAL RECEIPTS** | **11,417,811** | **9,859,806** |
| **DISBURSEMENTS** | | |
| **Special Purpose Payments** | | |
| **Third Party Claims** | | |
| Judgments, including costs | 4,712,439 | 2,669,699 |
| Out-of-Court settlements | 94,031 | 163,843 |
| Hit-and-run cases, including costs | 603,318 | 403,201 |
| | **5,409,788** | **3,236,743** |
| **Accident Benefits** | | |
| Statutory accident benefits | 5,264,804 | 5,910,722 |
| **Sub-total** | **10,674,592** | **9,147,465** |
| **Administrative Expenses** | | |
| Salaries and wages | 762,330 | 834,718 |
| Employee benefits | 148,302 | 222,056 |
| Transportation and communication | 104,117 | 33,393 |
| Services | | |
| Claims (Solicitors' fees, etc.) | 987,910 | 1,166,157 |
| Accident benefits claims expense | 615,132 | 797,738 |
| Other | 655,722 | 811,704 |
| Supplies and equipment | 31,975 | 56,039 |
| **Sub-total** | **3,305,488** | **3,921,805** |
| **TOTAL DISBURSEMENTS** | **13,980,080** | **13,069,270** |
| Increase/(Decrease) in Fund during the year | (2,562,269) | (3,209,464) |
| Balance in Fund, on deposit with the Minister of Finance, Beginning of Year | 8,660,855 | 11,870,319 |
| Balance in Fund, on deposit with the Minister of Finance, End of Year | **6,098,586** | **8,660,855** |

See accompanying notes to Financial Statements

## MOTOR VEHICLE ACCIDENT CLAIMS FUND

## NOTES TO FINANCIAL STATEMENTS

### 1. Authority

The Motor Vehicle Accident Claims Fund (the "Fund") operates under the authority of the Motor Vehicle Accident Claims Act (the "Act"), R.S.O. 1990, Chapter M.41 as amended.

### 2. Fund Operations

The Fund was originally established to provide compensation to victims of motor vehicle accidents caused by uninsured or hit-and-run motorists in Ontario. Uninsured motorists were required to pay an annual fee into the Fund. However, effective March 1, 1980, with the enactment of the Compulsory Automobile Insurance Act, all motorists were required to carry compulsory third party liability insurance including uninsured motorist coverage.

The Fund continues to pay those claims occurring after March 1, 1980, up to June 22, 1990 involving:

- pedestrians who are injured by an uninsured or hit-and-run vehicle where the pedestrian is not otherwise covered by an automobile insurance policy;
- injury to uninsured passengers in an uninsured vehicle where the driver of the uninsured vehicle is at fault;
- innocent parties where two uninsured motor vehicles are involved; and
- damages to property not insured against vehicle impact (e.g. Hydro and telephone poles, highway guardrails, etc.) providing both owner and driver of the uninsured vehicle can be identified.

Effective June 22, 1990, the Insurance Statute Law Amendment Act amended the Motor Vehicle Accident Claims Act to require that the Fund also pay first-party, no-fault accident benefits in accordance with the Statutory Accident Benefits Schedule to all parties, in those residual circumstances where no automobile insurance is available. The right of subrogation, which had applied to all claims prior to June 22, 1990, now only exists on liability claims which require that a personal injury threshold be surpassed.

As was the case in pre-June 1990 cases, the Fund continues to pay property damage claims, providing both the owner and driver of the uninsured vehicle are identified, except in those instances involving two uninsured vehicles, where no property damage claims are paid.

Bill 164 an Act to amend the Insurance Act became law, effective January 1, 1994. The Fund was required to pay out an enhanced level of accident benefits as set out in the Statutory Accident Benefits Schedule ("SABS"). This change has not materially affected the volume of claims although it has affected the configuration of claims and ceiling amounts.

The Automobile Insurance Rate Stability Act 1996, became effective on November 1, 1996. This Bill changed again the configuration of claims and ceiling amounts decreasing accident benefit claim limits and expanding tort rights, while establishing disincentives for operators of uninsured vehicles.

As a result of these legislative changes since 1990, the Fund is paying out claims under four different automobile insurance systems.

## 3. Statement of Fund

### Basis of Accounting

The Fund uses a cash basis of accounting which is modified to allow an additional thirty days to pay for goods and services pertaining to the fiscal year just ended. In this regard, certain payments incurred at year end may be reported in the following month of the new fiscal period.

### Receipts

Fees consist of $1.00 charged per year to every driver in the Province of Ontario who renews his/her driver's licence and for every new driver's licence issued.

Amounts collected on outstanding receivables are reported as receipts in the year they are collected (see below for explanation of Accounts Receivable).

### Special Purpose Payments

Amounts paid from the Fund to victims of automobile accidents, where there is no insurance to respond to the claim, are reported as expenditures and are broken down into claim types set out in the Act. These payments are legally recoverable from uninsured at-fault motorists, for all third party, liability claims.

### Administrative Expenses

The administrative expenditures (e.g. Salaries, Benefits, Transportation & Communication, Services and Supplies & Equipment) are paid out during the course of the year from the Consolidated Revenue Fund. At the end of each fiscal year, the Lieutenant Governor in Council authorizes the payment out of the Fund, of the amount required to reimburse the Consolidated Revenue Fund for the expenses incurred in connection with the administration of the Fund.

## 4. Statement of Financial Position

### Motor Vehicle Accident Claims Fund

As at March 31, 2000 the Fund reported disbursements in excess of receipts by $2.6 million decreasing the fiscal year end Fund balance to $6.1 million. This amount is held in a Consolidated Revenue Fund Special Purpose Account and is reported as a liability on the Statement of Financial Position of the Province of Ontario.

### Accounts Receivable

The records of the Fund provide for an Accounts Receivable portfolio, compiled over the years as a result of third party claim payouts to uninsured victims. In accordance with the Act these payouts which become receivables, are recoverable from uninsured motorists. As of March 31, 1999, the process used to estimate the allowance for doubtful accounts was revised. The process involves an aging method modified to suit the Fund's payout process. At March 31, 2000 the receivables totalled $54.5 million. The allowance for doubtful accounts is calculated to be $31.3 million leaving a net realizable value of $23.2 million.

## Contingent Gains

Some payments out of the Fund are in the form of Structured Settlements for accident benefit claims. These claims have guarantee periods ranging from 10 to 25 years and during this period reversionary interest will revert back to Her Majesty the Queen in right of Ontario as represented by the Minister of Finance should the claimant die.

Even though the range of probability that the claimant may die during the guarantee period is slight, the Fund nevertheless has calculated the approximate reversionary interest as at March 31, 2000 for information purposes.

As at March 31, 2000, the amount paid out of the Fund for accident benefit claims in the form of structured settlements was approximately $3.2 million with applicable reversionary interest of approximately $2.4 million.

## Fixed Assets

The cost of Fixed Assets, consisting of furniture and equipment and alterations to premises are charged to operations in the period in which they are incurred.

## Unfunded Liability

As at March 31, 2000 the Fund is contingently liable for claims in process, claims which have occurred but have not yet been reported, and the expenses required to settle the claims. Based on an actuarial valuation, the estimated payments in all future years arising from outstanding claim and claim settlement expense liability, add up to $100.2 million. This amount includes a $4.3 million provision for adverse deviation. Once netted against the Fund's $6.1 million balance, and $23.2 million in net receivables, (as per Accounts Receivable, above), this leaves an unfunded liability of $70.9 million.

The portion of the overall $100.2 million expected to be paid out in the 2000 - 2001 fiscal year is estimated to be approximately $12.2 million.

# Management's Responsibility for Financial Reporting

The consolidated financial statements of the Ontario Pension Board ("OPB") have been prepared by management, which is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these consolidated financial statements are in accordance with generally accepted accounting principles. Of necessity, many amounts in the financial statements must be based on the best estimates and judgement of management with appropriate consideration as to materiality. Financial information presented throughout this annual report is consistent with the consolidated financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded against unauthorized use or disposition, and proper records maintained. The system includes careful hiring and training of staff, the establishment of an organizational structure that provides for a well-defined division of responsibilities and the communication of policies and guidelines of business conduct throughout the OPB.

The Board of Directors ("Board") is ultimately responsible for the consolidated financial statements of the OPB. The OPB's Audit Committee assists in this responsibility by reviewing the consolidated financial statements in detail with management and the external auditors before such statements are recommended to the Board for approval. The Audit Committee meets regularly with management and the external auditors to review the scope and timing of audits, to review their findings and suggestions for improvements in internal control, and to satisfy themselves that their responsibilities and those of management have been properly discharged.

Leonard Lu
President

Robert J. Sycamore, C.A.
Director, Finance

February 7, 2000

## Auditors' Report

### To the Directors of the Ontario Pension Board:

We have audited the consolidated statement of net assets available for benefits and accrued pension benefits and surplus of the Ontario Pension Board (the "OPB") as at December 31, 1999, and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in surplus for the year then ended. These consolidated financial statements are the responsibility of the OPB's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the OPB as at December 31, 1999 and the results of its operations and the changes in its financial position, accrued pension benefits and surplus for the year then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young
Chartered Accountants

Toronto, Canada
February 7, 2000

# Actuaries' Opinion

## To the Directors of the Ontario Pension Board:

We have prepared an actuarial valuation on a funding basis of the Public Service Pension Plan (the "PSPPlan") as of December 31, 1998, as described in Note 9(a) of these consolidated financial statements.

We hereby certify that, in our opinion:

- the data provided to us by the Ontario Pension Board (OPB) are sufficient and reliable for the purposes of the December 31, 1998 valuation;
- the actuarial assumptions used are appropriate for the purposes of a valuation for funding purposes of the PSPPlan;
- the methods employed are consistent with sound principles established by precedent or by common usage within the actuarial profession, are appropriate for the purposes of the valuation and are consistent with the requirements of the Pension Benefits Act, the Public Service Pension Act, and the Income Tax Act (Canada); and
- the valuation was prepared and our opinion given in accordance with generally accepted actuarial practice.

Using the same data as provided by the OPB for the funding basis valuation, we also prepared an estimate of the assets and liabilities on an actuarial basis following the accounting methodology required by The Canadian Institute of Chartered Accountants Handbook, Section 4100, as disclosed in Note 9(b). These amounts are set out in the consolidated statement of net assets available for benefits and accrued pension benefits and surplus. The valuation for accounting purposes was prepared in accordance with accepted actuarial practice and is based on assumptions set out in Note 9(b), which in our opinion fall within a reasonable range.

Michael Banks

Michael D. Banks, F.I.A., F.C.I.A.

Paul J Nock

Paul Nock, F.S.A., F.C.I.A.

WILLIAM M. MERCER LIMITED
February 7, 2000

## Consolidated Statement of Net Assets Available for Benefits and Accrued Pension Benefits and Surplus

| **As at December 31**<br>(in thousands of dollars) | 1999 | 1998 |
|---|---|---|
| **Assets** | | |
| Investments (Note 5) | **$11,184,908** | $10,969,384 |
| Contributions receivable (Note 8) | **24,984** | 22,777 |
| Capital assets (Note 6) | **678** | 986 |
| Other assets | **78** | 192 |
| **Total assets** | **11,210,648** | 10,993,339 |
| **Liabilities** | | |
| Income taxes withheld on pension payments | **8,308** | 8,150 |
| Accounts payable and accrued charges | **6,008** | 3,845 |
| Contributions payable | **351** | 7,489 |
| **Total liabilities** | **14,667** | 19,484 |
| **Net Assets Available for Benefits** | **11,195,981** | 10,973,855 |
| Actuarial asset value adjustment (Note 9(b)) | **808,746** | 731,760 |
| **Actuarial Value of Net Assets Available for Investments** | **$12,004,727** | $11,705,615 |
| **Accrued Pension Benefits and Surplus** | | |
| Accrued Pension Benefits | **$10,994,073** | $10,903,192 |
| Surplus (Note 9(b)) | **1,010,654** | 802,423 |
| **Total Benefits and Surplus** | **$12,004,727** | $11,705,615 |

See accompanying notes

WH Somerville

William H. Somerville
Director

WJ Corcoran

William J. Corcoran
Director

## Consolidated Statement of Changes in Net Assets Available for Benefits

| **For the Year Ended December 31**<br>(in thousands of dollars) | **1999** | 1998 |
|---|---|---|
| **Increase in Net Assets** | | |
| Net investment income (Note 7) | **$ 569,051** | $ 1,309,861 |
| Contributions (Note 8) | **360,154** | 322,577 |
| **Increase in net assets** | **929,205** | 1,632,438 |
| **Decrease in Net Assets** | | |
| Pensions paid | **648,923** | 630,241 |
| Termination payments and transfers | **46,939** | 55,262 |
| Operating expenses (Note 12) | **11,217** | 10,377 |
| **Decrease in net assets** | **707,079** | 695,880 |
| **Net Increase in Net Assets For the Year** | **222,126** | 936,558 |
| Net Assets, at Beginning of Year | **10,973,855** | 10,037,297 |
| **Net Assets, at End of Year** | **$ 11,195,981** | $ 10,973,855 |

See accompanying notes

## Consolidated Statement of Changes in Accrued Pension Benefits

| **For the Year Ended December 31**<br>(in thousands of dollars) | **1999** | 1998 |
|---|---|---|
| **Accrued Pension Benefits, at Beginning of Year** | **$10,903,192** | $10,676,664 |
| **Increase in Accrued Pension Benefits** | | |
| Interest on accrued pension benefits | **735,233** | 686,372 |
| Benefits accrued | **206,891** | 195,101 |
| Total increase | **942,124** | 881,473 |
| **Decrease in Accrued Pension Benefits** | | |
| Benefits paid | **695,862** | 685,503 |
| Experience gains (losses) | **155,381** | (30,558) |
| Total decrease | **851,243** | 654,945 |
| **Net Increase in Accrued Pension Benefits** | **90,881** | 226,528 |
| **Accrued Pension Benefits, at End of Year** | **$10,994,073** | $10,903,192 |

## Consolidated Statement of Changes in Surplus

| **For the Year Ended December 31**<br>(in thousands of dollars) | **1999** | 1998 |
|---|---|---|
| **Surplus, at Beginning of Year** | **$ 802,423** | $ 24,914 |
| Increase in net assets available for benefits | **222,126** | 936,558 |
| Change in actuarial asset value adjustment | **76,986** | 67,479 |
| Increase in actuarial value of net assets available for benefits | **299,112** | 1,004,037 |
| **Net Increase in Accrued Pension Benefits** | **90,881** | 226,528 |
| **Surplus, at End of Year** | **$ 1,010,654** | $ 802,423 |

See accompanying notes

# Notes to the Consolidated Financial Statements
## December 31, 1999

### 1. Public Service Pension Act

Effective January 1, 1990, the Province of Ontario (the "Province") enacted the Public Service Pension Act, 1990 (the "PSPAct") to continue the pension plan for the employees of the Province and certain of its agencies. The terms of the Public Service Pension Plan (the "PSPPlan") are stated in Schedule 1 to the PSPAct. The Ontario Pension Board (the "OPB") is the administrator of the PSPPlan.

### 2. Description of PSPPlan

The following is a brief description of the PSPPlan. For more complete information, reference should be made to the PSPAct.

a) General

The PSPPlan is a contributory defined benefit pension plan and membership is mandatory for most employees who satisfy the eligibility requirements provided in the PSPAct. Under the PSPPlan, contributions are made by the members and the employers. The PSPPlan is registered under the Pension Benefits Act (Ontario) and the Income Tax Act (Canada) under Registration Number 0208777.

b) Contributions

The PSPPlan is integrated with the Canada Pension Plan ("CPP"). Member contributions are 6.2% of the salary on which contributions to CPP are made and 8% on the balance of salary. The employers contribute matching amounts.

Ontario Provincial Police ("OPP") members are required to contribute to the PSPPlan an additional 2% of salary which is matched by the employer.

c) Pensions

A pension is payable at age 65 (or at age 60 for some members with pre-1966 pension credits) based on the number of years of credit in the PSPPlan, 2% of the average salary during the best consecutive 60 month period, less an offset for amounts received under the CPP. An unreduced pension can be received before age 65 if the member's age and years of credit total 90 (the "Factor 90") or when the member reaches age 60 and has 20 or more years of credit. The Province amended the PSPPlan to provide for an enhanced early retirement opportunity for certain members of the Plan (the "Factor 80"). The amendment allows an unreduced pension for those members whose age and years of credit in the PSPPlan total 80 years. Members are eligible for this program if they achieve the Factor 80 prior to April 1, 2000 and elect, within certain limited time frames, to retire.

OPP members are eligible for an unreduced pension after attaining age 50 with 30 years of credit.

d) Death Benefits

Benefits may be payable to a surviving eligible spouse, eligible children, a designated beneficiary or the member's or pensioner's estate on the death of a member or a pensioner.

e) Disability Pensions

Based on meeting all eligibility criteria, a disability pension may be available to members with a minimum of 10 years of credit in the PSPPlan. The amount of the disability pension is dependent on years of credit and average salary.

f) Termination Payments

Members terminating employment before age 55, who are eligible for a deferred pension, may be entitled to transfer the commuted value of the pension to a locked-in registered retirement savings arrangement, to another pension plan or to purchase a life annuity.

g) Escalation of Benefits

Current pensions and deferred pension benefits are increased for inflation based on the Consumer Price Index to a maximum of 8% in any one year. Any inflation above 8% in any one year is applied to increase the pension in subsequent years when the adjustment is less than 8%.

## 3. The OPSEU Pension Plan

In April, 1994, the Province and the Ontario Public Service Employees' Union ("OPSEU") reached an agreement (the "Sponsorship Agreement") to sponsor a pension plan to operate separately from the PSPPlan for members of OPSEU, the Amalgamated Transit Union, the Ontario Liquor Control Board Employees' Union, and certain members of the Canadian Union of Public Employees. The OPSEU Act was enacted in June 1994 by the Province to give effect to the Sponsorship Agreement and to create the Ontario Public Service Employees' Union Pension Plan (the "OPSEU Pension Plan").

The benefits for all pensioners and deferred pensioners who terminated before January 1, 1993 and for all other PSPPlan members continue to be payable by the PSPPlan.

Under the terms of the Sponsorship Agreement, the net transfer of membership between the PSPPlan and the OPSEU Pension Plan has been settled up to December 31, 1994. In December 1998, the Province passed an Order-in-Council providing for rules for the calculation of transfers between the OPSEU Pension Plan and the PSPPlan. During 1999, significant progress was made at clearing the membership transfers subsequent to December 31, 1994. It is anticipated that the outstanding transfers will be cleared by mid 2000.

## 4. Summary of Significant Accounting Policies

a) Basis of Presentation

The consolidated financial statements are prepared in accordance with generally accepted accounting principles and present the position of the PSPPlan as a separate entity independent of the employers and plan members.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

b) Principles of Consolidation

The accounts of wholly-owned subsidiaries are included on a consolidated basis.

c) Investments

Traded investments are stated at fair value based on year-end market prices. Short-term investments are carried at amortized cost which approximates their aggregate fair value. Special Province of Ontario Debentures, which are non-marketable, are recorded at face value (see Note 5). Gains and losses realized on the disposal of investments are credited or charged to investment income. Withholding tax refunds from foreign jurisdictions are recorded on a cash basis. Investment transactions are presented on a trade date basis.

Real estate investments are stated at appraised values as established by independent appraisals at least every three years. Changes in valuation due to appraisal adjustments are included in unrealized gains. The last appraisal was performed in 1997.

d) Contributions

Contributions from members and employers which are due to the PSPPlan at year end are recorded as receivable. Transfers and purchases of prior service are recorded after cash is received and the case is processed.

e) Pensions

Payments of pensions, refunds and transfers are recorded in the year in which they are made.

f) Capital Assets

Capital assets are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the capital assets as follows:

| | |
|---|---|
| Computer equipment | 3 years |
| Leasehold improvements | Remaining term of lease |
| Furniture and fixtures | 10 years |

g) Foreign Currency Translation

Foreign currency transactions are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions.

The fair value of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year end.

## 5. Investments

| As at December 31<br>(in thousands of dollars) | 1999<br>Fair Value | <br>Cost | 1998<br>Fair Value | <br>Cost |
|---|---|---|---|---|
| **Special Province of Ontario Debentures** | **$ 3,553,865** | **$ 3,553,865** | $ 3,620,077 | $ 3,620,077 |
| **Cash and short-term investments** | | | | |
| Canadian | **724,748** | **727,608** | 520,162 | 521,054 |
| Foreign | **96,934** | **84,362** | 67,283 | 68,745 |
| | **821,682** | **811,970** | 587,445 | 589,799 |
| **Bonds** | | | | |
| Canadian | **1,820,035** | **1,902,572** | 1,863,409 | 1,772,778 |
| Foreign | **321,899** | **362,295** | 387,207 | 344,656 |
| | **2,141,934** | **2,264,867** | 2,250,616 | 2,117,434 |
| **Equities** | | | | |
| Canadian | **1,303,824** | **942,980** | 1,085,719 | 889,501 |
| Foreign | **2,244,484** | **1,461,683** | 2,314,176 | 1,269,860 |
| | **3,548,308** | **2,404,663** | 3,399,895 | 2,159,361 |
| **Real estate** | **837,509** | **814,030** | 827,609 | 804,130 |
| **Investments** | **$10,903,298** | **$ 9,849,395** | $10,685,642 | $ 9,290,801 |
| **Accrued income** | **281,610** | **281,610** | 283,742 | 283,742 |
| **Total** | **$11,184,908** | **$10,131,005** | $10,969,384 | $ 9,574,543 |

The Special Province of Ontario Debentures, which are non-marketable, are recorded at their aggregate face value of $3.554 billion. By discounting cash flows based on year-end market yields of comparable bonds, a value of $4.949 billion could be determined.

There are currently 22 Special Province of Ontario Debentures maturing over the next 15 years with a weighted average interest rate of 11.69%.

As Administrator of the Fund, the OPB has adopted a Statement of Investment Policies and Goals. This Statement provides investment objectives, performance expectations and guidelines for the management of the Fund. To reduce risk and enhance returns, equity and fixed income investments may be allocated to different asset classes. The proportion allocated at any point in time is determined based on an assessment of economic and financial market conditions.

To provide the ability to respond to fundamental changes, the Fund's asset mix is maintained within the following ranges:

| | |
|---|---|
| Equity | 30% to 70% |
| Fixed income | 30% to 70% |

The Fund's long-term asset mix policy is as follows:

| | |
|---|---|
| Equity | 60% |
| Fixed income | 40% |

This policy was adopted after evaluating the risk characteristics of alternative policies, considering the liquidity requirements of the Fund and the economic assumptions employed in the PSPPlan's actuarial valuation.

The OPB invests in high-grade bonds and common shares. The fair value of foreign investments will fluctuate with moves in exchange rates.

The OPB through its 100% owned subsidiary, OPB Realty (Management) Inc., owns a 100% interest in the following regional shopping centres:

Brentwood Mall, Burnaby, BC
Carlingwood Mall, Ottawa, ON
Lougheed Mall, Burnaby, BC
Marlborough Mall, Calgary, AB
Halifax Shopping Centre, Halifax, NS
Niagara Pen Centre, St. Catharines, ON
Pickering Town Centre, Pickering, ON
St. Vital Centre, Winnipeg, MB

Each property is held in a wholly-owned separate subsidiary.

See the Schedule of Fixed Income Maturities and the Schedule of Significant Investments for further information.

## 6. Capital Assets

| **As at December 31** (in thousands of dollars) | Cost | 1999 Accumulated Amortization | Net Book Value | 1998 Net Book Value |
|---|---|---|---|---|
| Computer equipment | $ 1,363 | $ 1,048 | $ 315 | $ 473 |
| Leasehold improvements | 1,062 | 843 | 219 | 347 |
| Furniture and fixtures | 555 | 411 | 144 | 166 |
| **Total capital assets** | $ 2,980 | $ 2,302 | $ 678 | $ 986 |

## 7. Net Investment Income

| **For the Year Ended December 31**<br>(in thousands of dollars) | 1999 | 1998 |
|---|---|---|
| **Interest income** | | |
| Special Province of Ontario Debentures | $ 418,594 | $ 425,117 |
| Cash and short-term investments | | |
| Canadian | 30,680 | 23,129 |
| Foreign | 3,813 | 3,040 |
| Bonds | | |
| Canadian | 136,966 | 101,131 |
| Foreign | 18,314 | 19,875 |
| **Total interest income** | 608,367 | 572,292 |
| **Dividend income** | | |
| Canadian | 19,893 | 17,690 |
| Foreign | 38,772 | 34,966 |
| **Total dividend income** | 58,665 | 52,656 |
| **Real estate income** | 70,625 | 60,893 |
| **Realized gain** | 182,430 | 412,869 |
| **Unrealized gain (loss)** | (340,939) | 220,972 |
| **Total investment income** | 579,148 | 1,319,682 |
| Investment management and custodial fees | 10,097 | 9,821 |
| **Net investment income** | $ 569,051 | $ 1,309,861 |

## 8. Contributions

**For the Year Ended December 31**
(in thousands of dollars)

| | 1999 | 1998 |
|---|---|---|
| **Members** | | |
| Current service | $ 96,397 | $ 91,961 |
| Prior service | 3,524 | 4,171 |
| | 99,921 | 96,132 |
| **Employers** | | |
| Current service | 99,401 | 99,851 |
| Prior service | 1,483 | 3,419 |
| Interim unfunded liability payments received | 121,263 | 114,724 |
| | 222,147 | 217,994 |
| **Transfers from other plans** | 38,086 | 8,451 |
| **Total contributions** | $ 360,154 | $ 322,577 |

The contribution requirements are set out in the PSPAct and summarized in Note 2.

Contributions receivable represent members' contributions due as well as estimated receivables for members receiving benefits on LTIP and for buybacks.

## 9. Accrued Pension Benefits

a) Funding Basis

The funding of the PSPPlan is based on a method of valuation required under the PSPAct. An actuarial valuation of the PSPPlan, prepared on a funding basis, was completed by the OPB's actuaries, William M. Mercer Limited ("Mercer") as at December 31, 1998. This valuation disclosed an unfunded liability of $220 million based on an actuarial liability of $11.499 billion and an actuarial value of assets of $11.279 billion at the end of 1998.

The Pension Benefits Act (Ontario) and the Income Tax Act (Canada) require an actuarial valuation for funding purposes to be performed at least every three years.

b) Accounting Basis

The consolidated financial statements include assets and liabilities on a best estimate basis according to the reporting standard set by the Canadian Institute of Chartered Accountants (CICA).

The CICA basis requires that the obligation for accrued pension benefits be calculated using best estimate assumptions and the projected benefit method pro-rated on services. The key assumptions which have been used for this estimation are for long-term expectations and are adjusted annually in light of economic conditions. For 1999 and 1998, the key assumptions used are as follows:

| | **1999** | 1998 |
|---|---|---|
| Interest | **7.0%** | 6.5% |
| Inflation | **3.0%** | 2.5% |
| Real rate of return | **4.0%** | 4.0% |
| Salary | **4.0%** | 3.5% |
| | **+ promotional scale** | + promotional scale |

Best estimates for the actuarial value of assets include valuation of the Special Province of Ontario Debentures on a discounted basis. In addition, realized and unrealized gains and losses on marketable investments are amortized over four years.

## 10. Statutory Information

The statutory information required under the Public Sector Salary Disclosure Act, 1995, with respect to employees who are paid a salary of $100,000 or more in a year is as follows:

| | **Salary** | **Taxable Benefits** |
|---|---|---|
| W.H. Somerville, Chairman | $124,204 | — |
| L. Lu, President | $164,092 | $405 |
| M. Fuller, Senior Vice-President, General Counsel & Secretary | $145,635 | $266 |
| R. Kay, Senior Vice-President, Investments | $137,925 | $349 |
| A. Evagelou, Vice-President, Plan Administration | $109,336 | $287 |

## 11. Ontario Provincial Police Early Retirement Benefit

Under the PSPPlan, the OPB is required to report annually on the early retirement benefit provided by the PSPPlan to members who are employed by the OPP. This early retirement benefit is available to OPP members who are 50 years of age and have 30 years of credit in the PSPPlan. OPP members contribute 2% of their salary to the PSPPlan in addition to the regular contribution amount. This contribution is matched by the employer.

The liability of OPP members who qualify and elect to retire under the Factor 80 provision is not reported under the OPP early retirement benefit. When the Province's program expires, the liability for all OPP members who attain 50 years of age and have 30 years of credit in the PSPPlan will be reported under the OPP early retirement benefit.

The position of the OPP early retirement benefit was included in the actuarial valuation as at December 31, 1998. The value of projected future contributions and benefits included in the December 31, 1998 actuarial valuation was updated to reflect actual contributions received and benefit payments made during the period to December 31, 1999. This method produces a reasonable estimate of the financial position of this benefit according to the OPB's actuaries.

The additional obligation and assets related to the OPP early retirement benefit as at December 31, 1999 were as follows:

| (in thousands of dollars) | |
|---|---|
| Assets allocated to payment of OPP early retirement benefit | $ 69,396 |
| Actuarial value of future additional contributions from OPP members and employer | 75,434 |
| | 144,830 |
| Actuarial value of future OPP early retirement benefit | 129,735 |
| Assets and actuarial value of future additional contributions available in excess of actuarial value of future OPP early retirement benefit | $ 15,095 |

## 12. Operating Expenses

| **For the Year Ended December 31**<br>(in thousands of dollars) | **1999** | 1998 |
|---|---|---|
| Salaries and benefits | **$ 4,818** | $ 4,839 |
| Agency services | **382** | 976 |
| Office premises and operations | **1,569** | 1,587 |
| Computer and professional services | **3,389** | 1,482 |
| Depreciation and amortization | **427** | 879 |
| Communications | **335** | 371 |
| Audit | **140** | 97 |
| Travel | **64** | 47 |
| Publications, registration and filing fees | **93** | 99 |
| **Total operating expenses** | **$ 11,217** | $ 10,377 |

## 13. Commitments

The OPB is committed under a lease for office premises at One Financial Place, Toronto, at an annual net rental of approximately $470 thousand until the year 2002.

## 14. Year 2000 Issue

The year 2000 issue arose because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. Although the change in date has occurred, it is not possible to conclude that all aspects of the year 2000 issue that may affect the entity, including those related to customers, suppliers or other third parties, have been resolved.

## Schedule of Fixed Income Maturities

| **As at December 31**<br>(in thousands of dollars) | 1999<br>Fair Value | 1999<br>Effective Yield % | 1998<br>Fair Value | 1998<br>Effective Yield % |
|---|---|---|---|---|
| **Special Province of Ontario Debentures** | | | | |
| 0-1 year | $ 56,726 | 10.04 - 11.53 | $ 47,303 | 8.39 - 10.07 |
| 1-5 years | 525,295 | 9.50 - 16.95 | 440,499 | 9.50 - 16.95 |
| 5-10 years | 1,400,519 | 11.05 - 15.38 | 1,004,286 | 9.82 - 15.38 |
| > 10 years | 1,571,325 | 10.38 - 11.55 | 2,127,989 | 10.38 - 13.33 |
| | $3,553,865 | | $3,620,077 | |
| **Cash and short-term investments** | | | | |
| Canadian: | | | | |
| 0-1 year | $ 724,748 | 4.63 - 5.16 | $ 520,162 | 4.41 - 6.50 |
| Foreign: | | | | |
| 0-1 year | 96,934 | 5.30 - 5.51 | 67,283 | 3.70 - 4.50 |
| | $ 821,682 | | $ 587,445 | |
| **Bonds** | | | | |
| Canadian: | | | | |
| 0-1 year | $ 6,839 | 5.55 - 9.66 | $ 1,333 | 4.49 |
| 1-5 years | 287,522 | 5.96 - 7.35 | 351,729 | 4.74 - 7.88 |
| 5-10 years | 1,238,159 | 5.76 - 9.62 | 986,500 | 4.79 - 6.82 |
| > 10 years | 287,515 | 6.24 - 7.65 | 523,847 | 1.92 - 5.95 |
| | $1,820,035 | | $1,863,409 | |
| Foreign: | | | | |
| 0-1 year | $ 18,060 | 4.78 | $ --------- | ------- |
| 1-5 years | 114,660 | 4.58 - 7.28 | 88,841 | 3.26 - 5.56 |
| 5-10 years | 178,047 | 5.12 - 8.87 | 226,268 | 3.71 - 6.12 |
| > 10 years | 11,132 | 4.60 | 72,098 | 4.31 |
| | $ 321,899 | | $ 387,207 | |
| | $2,141,934 | | $ 2,250,616 | |

## Schedule of Significant Investments*

| **As at December 31, 1999**<br>(in thousands of dollars) | **Fair Value** | **Cost** |
|---|---|---|
| **Special Province of Ontario Debentures** | $ 3,553,865 | $ 3,553,865 |
| **Cash and short-term investments** | | |
| Canadian | | |
| Treasury Bills | | |
| Government of Canada | $ 290,357 | $ 291,445 |
| **Bonds** | | |
| Canadian | | |
| Government of Canada | $ 792,742 | $ 835,044 |
| Province of Ontario | 233,374 | 241,831 |
| Foreign | | |
| Federal Republic of Germany | $ 195,892 | $ 226,558 |
| **Equities** | | |
| Canadian | | |
| BCE Inc. | $ 147,085 | $ 45,577 |
| **Real estate** | $ 837,509 | $ 814,030 |

*Investments with fair value or cost exceeding 1% of fair value or cost of total plan investments

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Provincial Auditor
of Ontario

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***Auditor's Report***

To the Provincial Judges Pension Board
and to the Minister of Finance

I have audited the statement of changes in fund balance of the Provincial Judges Pension Fund for the year ended March 31, 2000. This financial statement is the responsibility of the Fund's management. My responsibility is to express an opinion on this financial statement based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, this financial statement presents fairly, in all material respects, the financial position of the Fund as at March 31, 2000 and the results of its operations for the year then ended in accordance with the accounting policy described in note 2 to the financial statement.

Toronto, Ontario
May 5, 2000

J.R. McCarter, CA
Assistant Provincial Auditor (Acting)

## PROVINCIAL JUDGES PENSION FUND

### Statement of Changes in Fund Balance
### For the Year Ended March 31, 2000

| | 2000<br>($000's) | 1999<br>($000's) |
|---|---|---|
| **Deposits** | | |
| Contributions | | |
| Participants | 2,864 | 1,959 |
| Province of Ontario (Note 4) | 14,702 | 9,449 |
| Interest earned | 21,611 | 20,255 |
| | 39,177 | 31,663 |
| **Payments** | | |
| Pension payments and survivor allowances | 14,181 | 9,469 |
| Refunds | 463 | 79 |
| | 14,644 | 9,548 |
| **Net increase in the Fund** | 24,533 | 22,115 |
| **Balance on deposit with the Minister of Finance** | | |
| - beginning of year | 231,239 | 209,124 |
| - end of year | 255,772 | 231,239 |

**Contingent liability (Note 5)**

See accompanying notes to financial statement.

Approved on behalf of the Board:

Chair

## PROVINCIAL JUDGES PENSION FUND

**Notes to Financial Statement**
**March 31, 2000**

### 1. DESCRIPTION OF THE FUND

The Provincial Judges Pension Fund (the Fund) is administered by the Provincial Judges Pension Board as designated by Ontario Regulation 67/92, as amended, of the *Courts of Justice Act*. The following brief description of the Fund is provided for general purposes only. For more complete information, reference should be made to the Regulation.

#### (a) General

The purpose of the Fund is to provide pension payments to retired Provincial Judges and Masters who are members of the Plan or survivor allowances to the dependents of these Judges and Masters.

#### (b) Funding Policy

Participants are required to contribute 7% of their salary to the earlier occurrence of meeting their basic service requirement or attaining age 70 years.

The annual contribution required of the Province is determined annually by an actuarial valuation.

#### (c) Pension Payments

A pension payment is available based on the age and the number of years of full-time service for which the participant has credit upon ceasing to hold office and on the salary of a full-time judge of the highest judicial rank held by the participant while in office. The participant is entitled to these payments during his/her lifetime.

#### (d) Disability Pension Payments

A full pension is available at age 65 for participants with a minimum of five years of full-time service who are unable to serve in office due to injury or chronic illness.

#### (e) Survivor Allowances

A survivor allowance equal to 60% of the pension payment is paid to the spouse during the spouse's lifetime or to children who meet the age, custody, education or disability criteria defined in section 22 of the Regulation.

#### (f) Death Refunds

A death refund is payable to the personal representative of a participant where there is no further entitlement to a survivor allowance. The amount of the refund is equal to the participant's contributions in the Fund plus interest, less entitlements already paid out.

#### (g) Withdrawal Refunds

Upon ceasing to hold office for a reason other than death, participants not eligible to receive pension payments are entitled to receive a refund of their contributions to the Fund plus interest.

## PROVINCIAL JUDGES PENSION FUND

**Notes to Financial Statement**
**March 31, 2000**

### 1. DESCRIPTION OF THE FUND (CONTINUED)

**(h) Interest Revenue**

All new money, being the excess of deposits over payments each fiscal year, earns interest at a fixed rate for 25 years which is not less than the weighted average rate on long term securities issued or guaranteed by the Province of Ontario during that fiscal year. For the 2000 fiscal year, the rate applied to the new money each month was 6.6% (1999 – 6.07%) and was credited from the end of each month to the end of the fiscal year. The weighted average interest rate applied to the Fund balance at the beginning of the fiscal year was 9.31% (1999 – 9.65%).

**(i) Fund Status**

The Fund is not subject to the reporting requirements under the *Pension Benefits Act* and Regulations. However, the Fund has the status of a registered pension plan for income tax purposes.

**(j) Escalation of Entitlements**

Entitlements are adjusted annually based on changes in the Canadian Aggregate Industrial Wage as published by Statistics Canada, subject to a maximum of 7% in any one year.

**(k) Pending Changes to the Fund**

Amendments to the *Income Tax Act (Canada) (ITA)* limit the pension benefit payable from the Fund for post 1991 service. Cabinet has approved that benefits above the ITA limit will be provided through a separate supplementary account in the Consolidated Revenue Fund.

The terms of the Fund are being revised to comply with the requirements under the ITA, and an Order-in-Council will be required to establish the supplementary account.

Revenue Canada is aware of the status of the supplementary account.

To date, the Fund has paid out approximately $5,548,676 which should have been paid from the supplementary account. Once the account is established, there will be a reconciliation between the account and the Fund, both of which are to be held within the Consolidated Revenue Fund.

### 2. SIGNIFICANT ACCOUNTING POLICY

The financial statement has been prepared on a cash basis of accounting.

### 3. ADMINISTRATIVE EXPENSES

Administrative expenses are paid by the Province of Ontario.

## PROVINCIAL JUDGES PENSION FUND

**Notes to Financial Statement**
**March 31, 2000**

### 4. LIABILITY FOR FUTURE BENEFITS

The most recent actuarial valuation of the Fund disclosed that, as of March 31, 1999, the present value of future government contributions for pension payments and survivor allowances was $161,543,000 (1998 - $100,649,000). The Province contributes towards this total in amounts recommended by the actuarial valuation. For each of the years shown, the contributions were based on the previous year's valuation, the most current valuation completed at the time the contributions were made.

### 5. CONTINGENT LIABILITY

Approximately 118 provincial court judges appointed before 1984 have commenced action against Her Majesty the Queen in Right of the Province of Ontario, claiming that the transfer of their contributions from the Public Service Superannuation Fund (PSSF) to the Provincial Judges Pension Fund (PJPF) was not legally authorized. They claim the return of their contributions or damages to a maximum of $200,000 each.

In December 1995 a retired provincial court judge brought an application alleging that the transfer of his contributions from the PSSF to the PJPF was not legally authorized. Two of the 118 judges in the first claim intervened in this application. The court held that the transfer was lawful.

With this unfavourable decision, it is unlikely that the 118 provincial court judges will maintain their action. The judges have not advanced their claims since March 1998. Crown counsel has approached counsel for the judges with the intention of either getting agreement to withdraw the claims or forcing a formal discontinuance. It is likely that this mater will be resolved in this calendar year.

### 6. YEAR 2000 ISSUE

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the Provincial Judges Pension Fund, including those related to third parties, have been fully resolved.

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***Auditor's Report***

To the Public Guardian and Trustee for the Province of Ontario
and to the Attorney General

I have audited the balance sheet of the Public Guardian and Trustee for the Province of Ontario as at March 31, 2000 and the statements of fund balances and revenue and expenditures – Administration Fund and the statement of cash flows – Administration Fund for the year then ended. These financial statements are the responsibility of the Public Guardian and Trustee's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Public Guardian and Trustee for the Province of Ontario as at March 31, 2000 and the results of its operations – Administration Fund and its cash flows – Administration Fund for the year then ended in accordance with the accounting policies as explained in the Summary of Significant Accounting Policies.

Toronto, Ontario
June 7, 2000

J.R. McCarter, CA
Assistant Provincial Auditor (Acting)

## The Public Guardian and Trustee for the Province of Ontario
## Balance Sheet
(in thousands of dollars)

**March 31, 2000**

| | Estates and Trusts | | Administration Fund | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| **Assets** | | | | |
| **Cash** | $ - | $ - | $ 117 | $ 37 |
| **Bonds and other debt issues** | 19,682 | 16,171 | - | - |
| **Funds invested** (Schedule A) | 868,202 | 865,748 | 58,562 | 56,456 |
| **Accounts receivable** | 5,628 | 7,879 | 2,113 | 230 |
| **Other assets** (Schedule B) | 88,240 | 84,172 | - | - |
| | $ 981,752 | $ 973,970 | $ 60,792 | $ 56,723 |
| **Liabilities and Fund Balances** | | | | |
| **Bank indebtedness** | $ 1,624 | $ 5,202 | $ - | $ - |
| **Accounts Payable** | 1,911 | 1,964 | 5,969 | 8,257 |
| **Accrued interest** (Note 5) | - | - | 3,300 | - |
| | $ 3,535 | $ 7,166 | $ 9,269 | $ 8,257 |
| **Fund balances** | 978,217 | 966,804 | 51,523 | 48,466 |
| | $ 981,752 | $ 973,970 | $ 60,792 | $ 56,723 |

On behalf of The Public Guardian and Trustee for the Province of Ontario

Public Guardian and Trustee

Deputy Public Guardian and Trustee

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

# The Public Guardian and Trustee
# for the Province of Ontario
## Statement of Estates and Trusts Fund Balances
(in thousands of dollars)

| For the year ended March 31 | 2000 | 1999 |
|---|---|---|
| Client estates | $ 331,593 | $ 344,728 |
| Crown estates | 83,396 | 80,101 |
| Probable escheats (Note 1) | 2,696 | 335 |
| Executorship estates | 11,758 | 14,354 |
| Cemetery trusts | 16,333 | 15,664 |
| Corporate trusts | 3,034 | 3,053 |
| Forfeited corporate assets | 3,922 | 3,766 |
| Suits and matters | 515,450 | 495,599 |
| Land titles | 3,111 | 2,972 |
| Unclaimed balances | 1,554 | 1,550 |
| Unadministered estates | 5,370 | 4,682 |
|  | $ 978,217 | $ 966,804 |

The accompanying summary of significant policies and notes are an integral part of these financial statements

**The Public Guardian and Trustee**
**for the Province of Ontario**
**Statement of Administration Fund Balances**
**(in thousands of dollars)**

**For the year ended March 31, 2000**

| | Assurance Fund | Litigation Reserve Fund | Allowance for Doubtful Accounts Fund | Medical Contingency Fund | Unappropriated Fund | Total 2000 | Total 1999 |
|---|---|---|---|---|---|---|---|
| **Balance, as previously stated** | $ 200 | $ 2,000 | $ 100 | $ 100 | $ 52,785 | $ 55,185 | $ 52,227 |
| Adjustment on finalization of merger (Note 7) | - | - | - | - | (6,719) | (6,719) | (6,719) |
| As restated | 200 | 2,000 | 100 | 100 | 46,066 | 48,466 | 45,508 |
| **Excess of revenue over expenditures** | - | - | - | - | 3,800 | 3,800 | 3,447 |
| **Claims during the year** | (551) | (177) | - | (15) | - | (743) | (489) |
| **Transfers** | | | | | | | |
| Reimbursement of Claims | 551 | 177 | - | 15 | (743) | - | - |
| **Balance, end of year** | $ 200 | $ 2,000 | $ 100 | $ 100 | $ 49,123 | $ 51,523 | $ 48,466 |

## The Public Guardian and Trustee
## for the Province of Ontario
## Statement of Revenue and Expenditures - Administration Fund
(in thousands of dollars)

| For the year ended March 31 | 2000 | 1999 |
|---|---|---|
| **Revenue** | | |
| Fees collected | | |
| Client estates | $ 8,815 | $ 10,642 |
| Crown estates | 1,207 | 1,308 |
| Probable escheats | 4 | 62 |
| Executorship estates | 120 | 272 |
| Charity trusts | 150 | 265 |
| Cemetery trusts | 47 | 59 |
| Corporate trusts | 1 | 17 |
| Forfeited corporate assets | 33 | 27 |
| | 10,377 | 12,652 |
| Bank interest, net of charges | (562) | (139) |
| Income from funds invested, net (Schedule C) | 10,285 | 8,974 |
| | 20,100 | 21,487 |
| **Expenditures** | | |
| Salaries and wages | 14,949 | 14,316 |
| Employee benefits (Note 3) | 2,846 | 2,993 |
| Services | 3,959 | 2,596 |
| Supplies and equipment | 453 | 370 |
| Transportation and communication | 1,508 | 1,317 |
| | 23,715 | 21,592 |
| Less: Amount recovered from the Ministry of the Attorney General | (7,415) | (3,552) |
| | 16,300 | 18,040 |
| **Excess of revenue over expenditures for the year** | $ 3,800 | $ 3,447 |

## The Public Guardian and Trustee
## for the Province of Ontario
## Statement of Cash Flows - Administration Fund
(in thousands of dollars)

| For the year ended March 31 | 2000 | 1999 |
|---|---|---|
| **Cash was provided by (used in)** | | |
| **Operating activities** | | |
| Excess of revenue over expenditures for the year | $ 3,800 | $ 3,447 |
| Adjustments to reconcile excess of revenue over expenditures to net cash provided by operating activities | | |
| Loss (gain) in income from investments | 5,442 | (29) |
| Claims during the year | (743) | (489) |
| Accounts receivable | (1,883) | (225) |
| Accounts payable | (2,288) | (61) |
| Accrued interest | 3,300 | (7,207) |
| | 7,628 | (4,564) |
| **Investing activities** | | |
| Proceeds (purchases) of investments, net | (7,548) | 4,599 |
| **Increase in cash during the year** | 80 | 35 |
| **Cash**, beginning of the year | 37 | 2 |
| **Cash**, end of the year | $ 117 | $ 37 |

## *The Public Guardian and Trustee*
## for the Province of Ontario
## Summary of Significant Accounting Policies

**March 31, 2000**

**Nature of Operations**

The Public Guardian and Trustee for the Province of Ontario performs duties under a number of statutes with the following main responsibilities:

- the management of estates of incompetent individuals
- the administration of estates of persons who have died in Ontario intestate and without next-of-kin
- the gathering of assets on behalf of the Crown under the Escheats Act when there is no known owner of those assets or the owner is a corporation no longer in existence
- the management of funds, mortgages and securities paid into or lodged with the Accountant of the Superior Court of Justice on behalf of minors and litigants
- a general supervisory role over charities and charitable property

**Basis of Accounting**

The Organization uses the accrual basis for accounting for the Administration Fund and funds invested. Assets held on behalf of clients, other than funds invested, are accounted for on a market value basis as explained in the significant accounting policies relating to these items.

**Estates and Trusts**

Estates and Trusts represent accounts over which The Public Guardian and Trustee for the Province of Ontario acts as trustee under the regulations of *The Public Guardian and Trustee Act*. Estates and Trusts earn interest on the funds at established rates and are charged fees for trustee services provided in accordance with regulations under the Act.

**Unappropriated Administration Fund**

The Administration Fund is the operating account of The Public Guardian and Trustee. It is used to accumulate fees charged each estate and trust for services, as prescribed by the regulations under *The Public Guardian and Trustee Act*.

Cash balances in the Administration Fund which are not required for operating purposes are invested along with the cash funds of Estates and Trusts. The Administration Fund receives the net interest income of these investment activities, after interest is allowed on the funds of Estates and Trusts in accordance with regulations under the Act.

All operating expenses of the Office of the Public Guardian and Trustee are paid from the Administration Fund.

**The Public Guardian and Trustee**
**For the Province of Ontario**
**Summary of Significant Accounting Policies**

**March 31, 2000**

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**Appropriated Administration Funds**

**Assurance Fund**
The regulations under the Act provide that an Assurance Fund shall be established to meet losses for which the Office of the Public Guardian and Trustee might become liable. Accordingly, this Fund has been established at $200,000 by transfers from the Administration Fund.

During the year the Fund was reimbursed $550,804 (1999 - $75,358) from the unappropriated fund.

**Litigation Reserve Fund**
The intent of the Litigation Reserve Fund is to cover costs of an opposing side's legal bills where the Office of the Public Guardian and Trustee is obliged to pay such costs.

During the year the Fund was reimbursed $176,960 (1999 - $395,228) from the unappropriated fund for legal costs incurred on behalf of the clients.

**Allowance for Doubtful Accounts Fund**
The intent of the Allowance for Doubtful Accounts Fund is to provide for all clients accounts whereby the Office of the Public Guardian and Trustee has paid expenses on a client's behalf but is not expected to be able to recover the amount from the client.

**Medical Consultancy Fund**
The Medical Consultancy Fund was set up to cover fees of medical consultants for consent to treatment for The Public Guardian and Trustee to make substitute decisions on behalf of incapable persons under the Regulations of the *Public Hospitals Act*.

During the year the Fund was reimbursed $14,619 (1999 - $18,754) from the unappropriated fund.

**Cash and Cash Equivalents**

Cash, as presented in the statement of cash flows, includes cash and cash equivalent balances held in accounts specifically assigned to the administration fund and does not include cash and cash equivalents held jointly with estates and trusts through funds invested. Cash and cash equivalents includes cash on hand, current bank accounts and short term deposits, if any, with terms to maturity of less than 90 days

**Funds Invested**

Funds are invested in high quality fixed income instruments subject to the investment guidelines of the *Trustee Act* and the guidelines and limitations as set by the Office of the Public Guardian and Trustee with emphasis on preservation of capital and maximizing return. These securities are reflected at cost adjusted for the amortization of premiums or discounts on purchase of the period to maturity, where these securities are intentionally held to maturity.

**The Public Guardian and Trustee**
**For the Province of Ontario**
**Summary of Significant Accounting Policies**

**March 31, 2000**

| | |
|---|---|
| **Stocks and Bonds of Estates and Trusts** | Stocks and bonds of Estates and Trusts are recorded at their market value at the time of taking over the Estates and Trusts. An annual adjustment to market value is made, as a minimum, at December 31 each year, with occasional revaluations made during the year. |
| **Real Estate** | Real estate is recorded at appraised value at the time of incorporation of the trust and is subject to periodic revaluations. |
| **Life Insurance** | Life insurance is recorded at its cash surrender value at the time of incorporating the trust and is subject to valuation every two years. |
| **Foreign Currency Translation** | Foreign currency amounts are translated to Canadian dollars as follows:<br>At the transaction date, each asset, liability, revenue or expenses is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in income in the current period. |
| **Capital Assets** | Items of a capital nature are charged to operations in the year of acquisition. |
| **Use of Estimates** | The preparation of financial statements in accordance with the accounting policies noted above requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from management's best estimates, as additional information becomes available in the future |

# The Public Guardian and Trustee for the Province of Ontario Notes to Financial Statements

March 31,2000

---

## 1. Funds Escheated to the Crown

The Public Guardian and Trustee is authorized by the *Escheats Act* to take possession of unclaimed property reverting to the Crown under *the Succession Law Reform Act, Business Corporations Act*, or common law. After a period of ten years, any property so received by The Public Guardian and Trustee which remains unclaimed is transferred to the Consolidated Revenue Fund of the Province.

During the year, $265,602 (1999 - $1,256,800) was transferred to the Province.

## 2. Transfers to Consolidated Revenue Fund

Pursuant to Section 9(5) of *The Public Guardian and Trustee Act*, the Lieutenant Governor in Council may from time to time direct the payment into the Province's Consolidated Revenue Fund of any balance at the credit of the Administration Fund.

No transfers were made during the year to the Consolidated Revenue Fund of the Province.

## 3. Pension Plan

The Public Guardian and Trustee provides pension benefits for its employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund established by the Province of Ontario. The Public Guardian and Trustee's share of contributions to these Funds during the year was $913,414 (1999 - $905,148) and is included in employee benefits in the Statement of Revenue and Expenditures - Administration Fund.

## 4. Mortgages and Securities in Trust

The Public Guardian and Trustee also acts as custodian of mortgages in the amount of $382,051 (1999 - $396,209) and miscellaneous securities and documents having a face value of $3,813,523 (1999 - $9,209,469). These amounts are not reflected in the financial statements as The Public Guardian and Trustee does not act as trustee but simply as custodian on behalf of the client.

## 5. Accrued Interest on Estates and Trusts

Pooled funds earn interest that differs from the prescribed rate paid to Estates and Trusts. During the year, an accumulated excess earned of approximately $3,300,000 (1999 - $Nil) was accrued and is to be paid out in the subsequent year as an increase in the prescribed rate.

## 6. Contingencies

The Public Guardian and Trustee is involved in various legal actions arising in the normal course of operations, the outcome and ultimate disposition of which are not determinable at this time.

### 7. Adjustment on Finalization of Merger

During the year the Public Guardian and Trustee finalized the accounting for the merger of the operations of the Accountant of the Superior Court of Justice for the March 31, 1998 fiscal period. As a result the organization discovered a required decrease to income from investments of $3,719,000 and interest allowed of $3,000,000. This adjustment has been applied retroactively. The Administration Fund – accounts payable has been increased by $3,719,000, the Administration Fund – funds invested has been decreased by $3,000,000 and the Administration Fund – unappropriated fund has been decreased by $6,719,000. In addition, the Estates and Trusts – cash has been decreased by $6,719,000, the Estates and Trusts – funds invested has been increased by $3,000,000, and the Estates and Trusts – accounts receivable has been increased by $3,719,000.

### The Public Guardian and Trustee
### for the Province of Ontario
### Schedule A - Funds Invested
### (in thousands of dollars)

| For the year ended March 31 | | 2000 | 1999 |
|---|---|---|---|
| **Cash (Bank Indebtedness)** | | $ 1,575 | $ (4,946) |
| **Accrued Interest** | | 13,349 | 12,199 |
| **Short term investments** | | 169,415 | 163,186 |
| | | **184,339** | **170,439** |
| **Long term investments** | | | |
| Corporate Bonds | (i) | 81,168 | 55,589 |
| Federal Government | (ii) | 292,765 | 357,376 |
| Ontario Hydro | (iii) | 48,133 | 52,261 |
| Provincial Governments | (iv) | 151,177 | 142,912 |
| Financial Institutions | (v) | 169,182 | 143,627 |
| | | **742,425** | **751,765** |
| | | **$ 926,764** | **$ 922,204** |
| **Allocated as follows** | | | |
| Estates and Trusts | | $ 868,202 | $ 865,748 |
| Administration Fund | | 58,562 | 56,456 |
| | | **$ 926,764** | **$ 922,204** |

| **Long term Investments** | Interest Rates | Cost | Market Value |
|---|---|---|---|
| (i) Corporate Bonds | | | |
| 1 - 5 years | 5.40 - 8.70% | $ 54,969 | $ 54,241 |
| 5 years + | 5.65 - 6.55% | 26,199 | 25,341 |
| | | **81,168** | **79,582** |
| (ii) Federal Government | | | |
| 1 - 5 years | 5.00 - 9.75% | 236,302 | 230,721 |
| 5 years + | 6.00 - 7.25% | 56,463 | 54,935 |
| | | **292,765** | **285,656** |
| (iii) Ontario Hydro | | | |
| 1 - 5 years | 5.38 - 10.00% | 48,133 | 45,653 |
| | | **48,133** | **45,653** |
| (iv) Provincial Governments | | | |
| 1 - 5 years | 4.88 - 9.75% | 120,334 | 118,134 |
| 5 years + | 5.10 - 9.00% | 30,843 | 30,502 |
| | | **151,177** | **148,636** |
| (v) Financial Institutions | | | |
| 1 - 5 years | 5.40 - 11.00% | 126,054 | 122,367 |
| 5 years + | 5.55 - 8.15% | 43,128 | 41,781 |
| | | **169,182** | **164,148** |
| | | **$ 742,425** | **$ 723,675** |

**The Public Guardian and Trustee**
**for the Province of Ontario**
**Schedule B - Other Assets**
**(in thousands of dollars)**

| For the year ended March 31 | 2000 | 1999 |
|---|---|---|
| Real estate | $ 44,210 | $ 44,819 |
| Stocks and other securities | 33,770 | 29,226 |
| Mortgages and loans receivable | 991 | 1,356 |
| Life insurance | 2,826 | 2,726 |
| Other | 8,818 | 8,477 |
| | **90,615** | **86,604** |
| Less: Mortgages and loans payable | (2,375) | (2,432) |
| | **$ 88,240** | **$ 84,172** |

**Schedule C - Income from Funds Invested**
**(in thousands of dollars)**

| For the year ended March 31 | 2000 | 1999 |
|---|---|---|
| Income from investments | $ 48,139 | $ 62,593 |
| Bank interest | 272 | 310 |
| | **48,411** | **62,903** |
| Less: Interest allowed | (38,126) | (53,929) |
| | **$ 10,285** | **$ 8,974** |

## Ontario Public Guardian and Trustee

## Employee's Earning Over $100,000

| Employee Name | Title | Salary |
|---|---|---|
| Louise Statford | Public Guardian and Trustee | 123,073 |
| Paul Chappell | Deputy PGT and General Counsel | 121,582 |
| Les Avila | Counsel Estates & Corporations | 104,719 |
| Donal Bur | Litigation Counsel | 104,719 |
| James Byerley | Solicitor | 104,719 |
| Dana De Sante | Counsel, Charities | 101,389 |
| Marilyn Glick | Litigation Counsel | 104,719 |
| Ken Goodman | Charities/Litigation, Team Leader | 104,719 |
| William Morrison | Client Lawyer | 104,719 |
| Bruse Warner | Client Lawyer | 104,719 |

**Workplace Safety and Insurance Board**

## RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements were prepared by management in accordance with generally accepted accounting principles, consistently applied, and include some amounts based upon management's best estimates and judgements. Any financial information contained elsewhere in the Annual Report is consistent with these financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are properly accounted for and safeguarded from loss. The Board of Directors has established an Audit Committee, to ensure that management fulfils these responsibilities. The Audit Committee meets periodically with management, internal auditors and external auditors to ensure that their responsibilities are properly discharged with respect to financial statement presentation, disclosure and recommendations on internal control.

The Internal Audit Branch performs audits designed to test the adequacy and consistency of the WSIB's internal controls, practices and procedures.

The external auditors, KPMG LLP, working under the direction of the Provincial Auditor, have performed an independent audit of the financial statements of the WSIB in accordance with generally accepted auditing standards. Their report outlines the scope of this independent audit and their opinion on the financial statements of the WSIB.

Eckler Partners Ltd., the independent consulting actuaries to the WSIB, express an opinion on the adequacy and appropriateness of the valuation of the WSIB's benefits liability.

David Williams
President and
Chief Executive Officer

Thomas Chan
Vice-President,
Finance and Corporate Services
and Chief Financial Officer

March 3, 2000

KPMG LLP
Chartered Accountants
Suite 3300 Commerce Court West
PO Box 31 Stn Commerce Court
Toronto ON M5L 1B2

Telephone (416) 777-8500
Telefax (416) 777-8818
www.kpmg.ca

# AUDITORS' REPORT

To the Workplace Safety and Insurance Board, the Minister of Labour and to the Provincial Auditor

Pursuant to the Workplace Safety and Insurance Act which provides that the accounts of the Workplace Safety and Insurance Board (WSIB) shall be audited by the Provincial Auditor or under his direction by an auditor appointed by the Lieutenant Governor in Council for that purpose, we have audited the balance sheet of the WSIB as at December 31, 1999 and the statements of operations and unfunded liability and cash flows for the year then ended. These financial statements are the responsibility of WSIB management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the WSIB as at December 31, 1999 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada

March 3, 2000

## BALANCE SHEET
**Workplace Safety and Insurance Board**
**December 31, 1999**
**($ Millions)**

| | 1999 | 1998 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ - | $ 61 |
| Receivables | 320 | 143 |
| Investments (note 3) | 9,552 | 8,607 |
| Injured Workers' Retirement Fund (note 4) | 332 | 273 |
| Capital and other assets (note 5) | 275 | 254 |
| | $ 10,479 | $ 9,338 |
| **LIABILITIES** | | |
| Payables and accruals | $ 516 | $ 489 |
| Mortgage payable (note 6) | 74 | 74 |
| Injured Workers' Retirement Fund (note 4) | 332 | 273 |
| Employee future benefit liability (note 11) | 224 | - |
| Benefit liabilities (note 7) | 15,735 | 15,600 |
| | 16,881 | 16,436 |
| **UNFUNDED LIABILITY** | (6,402) | (7,098) |
| | $ 10,479 | $ 9,338 |

On behalf of the Board of Directors:

Glen Wright, Chair
Director

Director

The accompanying notes form an integral part of the financial statements.

## STATEMENT OF OPERATIONS AND UNFUNDED LIABILITY

**Workplace Safety and Insurance Board**
**For the Year Ended December 31, 1999**
**($ Millions)**

| | 1999 | 1998 |
|---|---|---|
| **Current Operations** | | |
| **Revenues** | | |
| Premiums for current year | $ 1,707 | $ 1,722 |
| Investments (note 3) | 1,065 | 997 |
| | 2,772 | 2,719 |
| **Expenses** | | |
| Benefit costs (note 7) | 2,338 | 2,177 |
| Net increase in the Injured Workers' Retirement Fund (note 4) | 59 | 52 |
| Administrative and other (note 9) | 387 | 335 |
| Legislated obligations and commitments (note 10) | 145 | 126 |
| | 2,929 | 2,690 |
| **Excess/(deficiency) of revenues over expenses from current operations** | (157) | 29 |
| Premiums for unfunded liability | 1,061 | 930 |
| **Excess of revenues over expenses applied to reduce the unfunded liability** | 904 | 959 |
| **Unfunded liability,** beginning of year | 7,098 | 8,057 |
| Change in accounting policy (note 11) | 208 | - |
| **Unfunded liability,** end of year | $ 6,402 | $ 7,098 |

The accompanying notes form an integral part of the financial statements.

## STATEMENT OF CASH FLOWS

**Workplace Safety and Insurance Board**
**For the Year Ended December 31, 1999**
**($ Millions)**

| | 1999 | | 1998 | |
|---|---|---|---|---|
| **Investing Cash Flows** | | | | |
| Investment income | $ 411 | | $ 445 | |
| Sale of investments | 4,253 | | 2,851 | |
| Purchase of investments | (4,543) | | (2,872) | |
| **Net cash provided by investing activities** | | $ 121 | | $ 424 |
| **Operating Cash Flows** | | | | |
| Current Operations | | | | |
| *Cash received from:* | | | | |
| Current premiums | $ 1,618 | | $1,640 | |
| *Cash paid to:* | | | | |
| Claimants, survivors and care providers | (2,203) | | (2,262) | |
| Injured Workers' Retirement Fund | (63) | | (52) | |
| Employees and suppliers for administrative goods and services | (396) | | (363) | |
| Others under legislated obligations & commitments | (143) | | (124) | |
| | (2,805) | | (2,801) | |
| *Net cash required by current operations* | | (1,187) | | (1,161) |
| Cash received from unfunded liability premiums | | 1,005 | | 885 |
| **Cash required by operations** | | (182) | | (276) |
| **Increase/(decrease) in cash and cash equivalents** | | (61) | | 148 |
| **Cash and cash equivalents, beginning of year** | | 61 | | (87) |
| **Cash and cash equivalents, end of year** | | $ - | | $ 61 |

The accompanying notes form an integral part of the financial statements.

## Notes to the Financial Statements

*December 31, 1999*

### 1. NATURE OF OPERATIONS

The Workplace Safety & Insurance Board (WSIB) is a statutory corporation created by an *Act* of the Ontario Legislature in 1914. It is responsible for administering the *Workplace Safety and Insurance Act, 1997.* The WSIB promotes the prevention of injuries and illnesses in Ontario workplaces and provides compensation to workers who sustain injuries arising out of and in the course of employment, or who contract occupational diseases.

The WSIB administers the *Workplace Safety and Insurance Act, 1997*, for two groups of employers, referred to as Schedule 1 and Schedule 2. Schedule 1 relates to services and industries in which employers are insured through "collective liability" and are required to contribute to the WSIB Insurance Fund whereas Schedule 2 relates to employers who are "self-insured" in that they are individually liable. The Federal Government, which is covered under a separate agreement with Human Resources Development Canada, is also treated as a Schedule 2 employer.

The WSIB pays the actual cost of claims for Schedule 2 workers and is reimbursed by those employers for the claims paid, as well as for the cost of prevention activities and administering the claims.

In addition, investment revenue is earned from a diversified investment portfolio held to meet future obligations on existing claims.

The WSIB does not receive government funding or other assistance and raises funds through premium rates being applied to the payrolls of Ontario's Schedule 1 employers covered under the *Workplace Safety and Insurance Act, 1997*, in order to provide compensation to workers or survivors of the workers who are injured in the course of employment or who contract an occupational disease.

### 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

The significant accounting policies are summarized as follows:

**Cash and cash equivalents**

Cash and cash equivalents are funds consisting of cash and money market instruments with initial maturities up to three months.

## Investments

### a) Bonds, coupons and mortgages

Bonds, coupons and mortgages are carried at amortized cost. In the case of mortgages, amortized cost is adjusted for principal repayments. Realized gains and losses on the sale of bonds, coupons and mortgages are deferred and amortized over the lesser of 20 years or the period to maturity of the security sold.

### b) Equities and real estate

Equities and real estate are carried at cost adjusted towards fair value. using a five-year moving average market method. Realized gains and losses are deferred and amortized over a four-year period.

### c) Short-term securities

Short-term securities consist of money market instruments with maturities between three and twelve months and are carried at cost. Gains and losses from sales are included in income in the year they occur.

### d) Foreign currency translation

Transactions in investments denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the time of the transaction. The cash and cash equivalents are translated to Canadian dollars at the exchange rate in effect at the balance sheet date.

## Fair values of investments

Fair values of investments are determined as follows:

Bonds and equities are valued at year-end quoted prices where available. Where quoted prices are not available, estimated fair values are calculated based upon the yields and values of comparable marketable securities.

Short-term notes, treasury bills and term deposits maturing within a year are valued at cost, which together with accrued interest income approximates fair value given the short-term nature of these instruments.

Real estate is valued based on appraised values conducted on a cyclical basis.

Pooled fund investments are valued at the unit values supplied by the pooled fund administrator, which represent the WSIB's proportionate share of underlying net assets at fair values determined using closing market prices.

### Fair value of other financial assets and liabilities

The fair values of other financial assets and liabilities, being cash, receivables, bank indebtedness, payables and accrued liabilities approximate their carrying values due to the short-term nature of these instruments.

### Injured Workers' Retirement Fund

Investments held in the Injured Workers' Retirement Fund are carried at fair value. Changes in fair values are taken into income of the Injured Workers' Retirement Fund in the year they occur or are realized.

### Capital assets and depreciation

Capital assets are stated at cost. Capital assets are depreciated using the straight-line method at rates calculated to expense the cost of assets over their estimated useful lives which, in the case of buildings and equipment, are 20 years and 5 years respectively. Buildings are carried at cost and include development, financing and other costs capitalized prior to becoming fully operational, at which time depreciation commences.

### Premium revenue

Under the *Workplace Safety and Insurance Act, 1997*, the Board shall determine the total amount of the premiums to be paid by all Schedule 1 employers with respect to each year in order to maintain the Insurance Fund under this Act.

Premium revenue is determined on the basis of estimated and actual payrolls for employers included in Schedule 1 of the *Workplace Safety and Insurance Act, 1997*, adjusted for claim experience where relevant.

Schedule 2 employers are individually liable to pay the benefits under the *Workplace Safety and Insurance Act, 1997*, with respect to the workers employed. Reimbursements for claims paid and cost of administering the claims are included in the premiums of the WSIB.

### Premiums for unfunded liability

In advance of the fiscal year, the WSIB notifies Schedule 1 employers of the methods used to calculate these rates, the premiums payable and the payment schedule. Premium rates include a specified component that is applied to reduce the unfunded liability.

**Benefit liabilities**

The benefit liabilities are determined annually through an actuarial valuation and represent a provision for future payments relating to claims incurred on or before December 31. The provision has been obtained by estimating future benefit payments in accordance with the adjudication practices in effect at December 31, 1999 and is based on legislation enacted January 1. 1998. For the first time, benefit liabilities include a provision for the future costs of administering existing claims estimated at 5.5% of the total benefit liabilities.

The benefit liabilities do not include any provision for payment of claims relating to Schedule 2 employers as they are a liability of Schedule 2 employers.

Benefit liabilities also make no provision for future claims related to occupational diseases and injuries that are not currently considered to be work related.

## 3. INVESTMENTS AND INVESTMENT REVENUE

The carrying value of investments comprises investments at cost of $10,230 million (1998: $9,597 million) including accrued investment income, plus adjustments towards fair value of $574 million (1998:$447 million), less unamortized net gains realized on the sale of investments of $1,252 million (1998:$1,437 million). Investments by category are as follows:

| **($ Millions)** | **1999** | | **1998** | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** |
| **Fixed Income Securities** | | | | |
| Bonds | $3,524 | $3,879 | $3,181 | $3,847 |
| Mortgages | 2 | 2 | 6 | 6 |
| | 3,526 | 3,881 | 3,187 | 3,853 |
| **Equities** | | | | |
| Domestic | 2,964 | 3,778 | 2,638 | 3,032 |
| Foreign - U.S. | 562 | 1,049 | 367 | 919 |
| - Global | 2,185 | 2,961 | 2,085 | 2,606 |
| | 5,711 | 7,788 | 5,090 | 6,557 |
| **Real Estate** | 235 | 273 | 255 | 271 |
| **Short-term Securities** | | | | |
| Money market instruments | 7 | 7 | 1 | 1 |
| Accrued investment income | 73 | 73 | 74 | 74 |
| | $9,552 | $12,022 | $8,607 | $10,756 |

The WSIB engages in a securities lending program whereby securities are loaned to borrowers, approved by the WSIB and the custodian, for a fee, against high quality collateral. At December 31, 1999, the fair value of securities on loan was $1.816 million (1998: $2.505 million).

Foreign investments are exposed to currency risk. Derivative instruments are used for the sole purpose of hedging foreign currency transactions to better manage and reduce currency risk. Such instruments are valued at year-end market prices. The notional amount of foreign currency contracts hedging investments in foreign currencies totalled $73 million at December 31, 1999 (1998: $321 million). Their related replacement value at year-end was $71 million (1998: $323million). The contracts mature in the first three months of 2000.

**Bonds by term to maturity as at December 31:**
**($ Millions)**

| | 1999 | | | | | 1998 |
|---|---|---|---|---|---|---|
| | | Term to maturity | | | | |
| | Up to 1 year | 1-5 years | 5-10 years | Over 10 years | Total | Total |
| **Government bonds** | | | | | | |
| Carrying value | $ 4 | $1,512 | $836 | $836 | $3,188 | $3,080 |
| Fair value | $ 4 | $1,491 | $815 | $808 | $3,118 | $3,227 |
| Yield % | 5.7 | 6.1 | 6.4 | 6.5 | 6.3 | 5.0 |
| **Corporate bonds** | | | | | | |
| Carrying value | $4 | $331 | $218 | $233 | $786 | $600 |
| Fair value | $5 | $323 | $211 | $222 | $761 | 620 |
| Yield % | 5.6 | 6.6 | 6.7 | 6.8 | 6.7 | 5.5 |
| Less: Unamortized gain | | | | | 450 | 499 |
| **Total** | | | | | | |
| Carrying value | | | | | $3.524 | $3,181 |
| Fair value | | | | | $3.879 | $3,847 |
| Yield % | | | | | 6.4 | 5.1 |

The average yield reflects the yield to maturity which is the discount rate that makes the present value of future cash flows of each bond equal to its fair value at December 31.

**Revenue by category of investment is as follows:**

| **($ Millions)** | 1999 | 1998 |
|---|---|---|
| Bonds | $ 262 | $ 275 |
| Equities | 797 | 725 |
| Short-term securities | 4 | 2 |
| | 1,063 | 1,002 |
| Injured Workers' Retirement Fund | 23 | 15 |
| Investment expenses | (21) | (20) |
| Investment revenue | $ 1,065 | $ 997 |

In 1999, $706 million (1998: $612 million) of realized and unrealized net gains were amortized to investment revenue.

## 4. INJURED WORKERS' RETIREMENT FUND

Under section 44 of the *Workers' Compensation Act* and Regulations of Ontario, R.S.O. 1990 (which continues to apply to injuries and diseases prior to January 1, 1998) the WSIB sets aside funds equal to 10 per cent of every payment made to injured workers under section 43 of that Act. In accordance with the provisions of that Act, these funds are segregated from the WSIB's Insurance Fund and are invested to provide for retirement income benefits for injured workers.

Under section 45 of the new *Workplace Safety and Insurance Act, 1997*, effective January 1, 1998, the WSIB set aside 5 per cent rather than 10 per cent of workers' loss of earnings benefits for his/her retirement fund for new claims. The injured workers may choose to contribute a further 5 per cent from their loss of earnings benefits. The amount is set aside only after the worker has received payments for loss of earnings for 12 continuous months. Since the *Workplace Safety and Insurance Act, 1997* took effect January 1, 1998, the 5 per cent set-aside first occurred on January 1, 1999.

The fair value of the fund at December 31 is as follows:

**($ Millions)**

| | | 1999 | 1998 |
|---|---|---|---|
| Cash | | $ 4 | $ 4 |
| Bonds | | 117 | 114 |
| Equities | - Domestic | 120 | 91 |
| | - Foreign Global | 61 | 51 |
| Money market Instruments | | 28 | 11 |
| Accrued investment income | | 2 | 2 |
| | | $ 332 | $ 273 |

In 1999, the net increase in the Injured Workers' Retirement Fund was $59 million (1998: $52 million). This net increase resulted from funds set aside pursuant to section 44 of the *Act* in the amount of $44 million (1998: $44 million) together with $23 million (1998: $15 million) earned on its investments. less $8 million (1998: $7 million) paid as retirement pensions.

**Bonds by term to maturity**
**($ Millions)**

| | Term to maturity | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 year | 1 - 5 years | 5 - 10 years | Over 10 years | 1999 | 1998 |
| **Government bonds** | | | | | | |
| Fair value | | $28 | $20 | $23 | $71 | $77 |
| Yield % | | 6.1 | 6.5 | 6.5 | 6.3 | 5.1 |
| **Corporate bonds** | | | | | | |
| Fair value | $3 | $23 | $ 6 | $14 | $46 | $37 |
| Yield % | 5.9 | 6.6 | 7.0 | 7.3 | 6.7 | 7.4 |
| **Total** | | | | | | |
| Fair value | | | | | $117 | $114 |
| Yield % | | | | | 6.5 | 6.4 |

## 5. CAPITAL AND OTHER ASSETS

**($ Millions)**

| | 1999 | | 1998 |
|---|---|---|---|
| | **Cost** | **Net Book Value** | **Net Book Value** |
| Buildings and leasehold improvements | $ 211 | $ 163 | $ 165 |
| Equipment | 174 | 55 | 32 |
| | 385 | 218 | 197 |
| Other assets | 57 | 57 | 57 |
| | $ 442 | $ 275 | $ 254 |

Depreciation expense in 1999 was $27 million (1998: $20 million).

## 6. MORTGAGE PAYABLE

The WSIB is a 75% participant in the co-ownership agreement of its head office building. To partially fund the development and construction of the building, the WSIB entered into a long-term mortgage loan agreement in 1993. The mortgage loan is secured by the building and matures in the year 2015. The interest rate is fixed at 10.25 per cent per annum, compounded semi-annually.

## 7. BENEFIT LIABILITIES AND BENEFIT COSTS

Benefit liabilities represent an actuarially determined provision for future benefit payments relating to incurred claims which were discounted to present value at the assumed net investment returns as shown below. Estimates of future benefit payments refer to both reported and unreported claims which have arisen from work-related accidents and occupational diseases that occurred on or before December 31, 1999 and are based on the level and nature of entitlement. as prescribed by legislation enacted January 1, 1998. and on adjudication practices in effect at December 31, 1999.

The benefit liabilities were determined using accepted actuarial practices in accordance with the standards established by the Canadian Institute of Actuaries.

The actuarial present value of future benefit payments reflects long-term estimates of economic and actuarial assumptions and methods, which were based upon past experience, modified for current trends. As these assumptions may change over time to reflect underlying conditions, it is possible that such changes could cause a material change in the actuarial present value of future benefit payments. The following key long-term economic assumptions were used in the actuarial valuation of the benefit liabilities:

| | 1999 | 1998 |
|---|---|---|
| Inflation rate | 3% | 4% |
| Rate of indexation of benefits | | |
| . Fully indexed | 3% | 4% |
| . Partially indexed | 0.5% | 1% |
| Net Investment return | | |
| . Fully indexed | 4% | 3% |
| . Partially indexed | 6.5% | 6% |
| Wage and health care costs escalation rate | 4% | 5% |

Mortality was estimated based on the WSIB's mortality experience of 1991 - 1995 for injured workers and on the Ontario Life Tables adjusted on the basis of WSIB's mortality projections for survivors of deceased workers. Full provision has been made for the effect of future increases in the covered earnings ceiling and indexation of benefits.

Management believes the amount provided for future payments of incurred claims to be adequate. Long-term economic and actuarial assumptions and methods are reviewed annually at December 31 of each year, when independent actuarial valuations are performed. The actuarial cost of claims for reported and unreported work-related accidents that occurred in the year are recorded under benefit costs, together with adjustments, if any, resulting from the continuous review of entitlements, experience, or from changes in legislation, assumptions or methods. Future claims administration costs, provided at 5.5% of the actuarially determined benefit liabilities. are $820 million (1998: nil).

Benefit liabilities provision and benefit costs paid in 1999 were as follows:

**($ Millions)**

| | 1999 | | | | | | | | 1998 |
|---|---|---|---|---|---|---|---|---|---|
| | Long-term Disability | Labour Market Re-entry | | Short-term Disability | Health Care | Survivor Benefits | Claim Administration Cost | Total | Total |
| | | Income Support | External Providers | | | | | | |
| **Benefit liabilities. Beginning of year** | $11,440 | $790 | $205 | $488 | $1,271 | $1,406 | - | $15,600 | $15,685 |
| **Benefit costs** | 912 | (38) | 64 | 318 | 238 | 24 | 820 | 2,338 | 2,177 |
| **Benefit costs paid. During the year** | | | | | | | | | |
| - Schedule 1 | (1,197) | (123) | ( 43) | (286) | (229) | (108) | - | (1,986) | (2,045) |
| - Schedule 2 | (110) | (10) | (2) | (47) | (26) | (14) | - | ( 209) | (210) |
| - Injured Workers' Retirement Fund | (8) | - | - | - | - | - | - | (8) | (7) |
| | (1,315) | (133) | (45) | (333) | (255) | (122) | - | (2,203) | ($2,262) |
| **Benefit liabilities, End of year** | $11,037 | $619 | $224 | $473 | $1,254 | $1308 | $820 | $15,735 | $15,600 |

Benefit costs paid include the following:

**($ Millions)**

| | Schedule 1 | | Schedule 2 | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| Long-term disability | | | | |
| - Worker pensions | $ 572 | $ 578 | $ 63 | $ 63 |
| - Supplements | 245 | 251 | 19 | 18 |
| - Future economic loss | 300 | 290 | 19 | 19 |
| - Non-economic loss | 80 | 79 | 9 | 9 |
| | 1,197 | 1,198 | 110 | 109 |
| Labour Market Re-entry | | | | |
| - Income support | 123 | 185 | 10 | 13 |
| - External provider | 43 | 42 | 2 | 3 |
| | 166 | 227 | 12 | 16 |
| Short-term disability | 286 | 241 | 47 | 41 |
| Health care | | | | |
| - Health care | 211 | 188 | 24 | 21 |
| - Medical reports | 18 | 18 | 2 | 2 |
| | 229 | 206 | 26 | 23 |
| Survivor benefits | 108 | 173 | 14 | 21 |
| | $ 1,986 | $ 2,045 | $ 209 | $ 210 |

## 8. ACTUARIAL RECONCILIATION OF THE CHANGE IN THE UNFUNDED LIABILITY

The actuarial reconciliation of the change in the unfunded liability is as follows:

| | ($ Millions) | | | |
|---|---|---|---|---|
| | | 1999 | | 1998 |
| Unfunded liability, beginning of year | | $ 7,098 | | $ 8,057 |
| Add/(deduct): | | | | |
| Investment income not earned due to shortfall in invested assets | | 499 | | 569 |
| Premiums allocated to reduction of unfunded liability | | (1,061) | | (930) |
| Experience losses (gains) resulting from | | | | |
| Indexation of benefits less than expected | | (69) | | (231) |
| Higher than expected interest rates | | (408) | | (400) |
| Prior and current year's claims experience and other sources | | (16) | | (93) |
| Other increases/(decreases): | | | | |
| Changes in assumptions | | | | |
| Net investment returns | $ (775) | | $ | |
| Other changes | 106 | (669) | 126 | 126 |
| Future claims administration costs | | 820 | | - |
| Change in accounting policy (note 11) | | 208 | | - |
| Unfunded liability, end of year | | $ 6,402 | | $ 7,098 |

## 9. ADMINISTRATIVE AND OTHER EXPENSES

Administrative and other expenses consist of the following:

| **($ Millions)** | 1999 | 1998 |
|---|---|---|
| Salaries and employee benefits | $ 259 | $ 227 |
| Equipment depreciation and maintenance | 30 | 22 |
| Occupancy | 31 | 29 |
| Communication | 12 | 11 |
| Supplies and services | 13 | 16 |
| Miscellaneous | 10 | 11 |
| Travel and vehicle maintenance | 6 | 5 |
| Year 2000 project | 26 | 8 |
| | 387 | 329 |
| Restructuring | 0 | 6 |
| | $ 387 | $ 335 |

## 10. RELATED PARTY TRANSACTIONS

**Legislated obligations and commitments**

Under the *Workplace Safety and Insurance Act, 1997*, and as directed by the Lieutenant Governor through Orders in Council, the WSIB is required to reimburse the Government of Ontario for the administrative cost of the Occupational Health and Safety Act. In addition, the WSIB is also required to fund the operating costs of the Workplace Safety and Insurance Appeals Tribunal, the Offices of the Worker and Employer Adviser and the mine rescue stations. The amounts of reimbursements and funding are determined and approved by the Minister of Labour. The WSIB is also committed to provide funding for the Institute for Work and Health and for the Safe Workplace Associations. The total amount of funding provided under these legislated obligations and commitments in 1999 was $145 million (1998: $126 million).

**Investments**

Included in investments are marketable fixed income securities issued by the Ontario provincial government and related corporations of $362 million (1998: $298 million).

**Other**

In addition to the legislated obligations and accident prevention expenses, the financial statements include amounts resulting from transactions conducted in the normal course of operations, with various Ontario government-controlled ministries, agencies, and Crown corporations with which the WSIB may be considered related. Such transactions are conducted on terms and conditions similar to those transactions with unrelated parties. Account balances resulting from these transactions are not significant.

## 11. EMPLOYEE FUTURE BENEFIT LIABILITY

Previously the costs of providing these post retirement benefits were charged to income as the expenditures were incurred. In 1999 WSIB changed its accounting policy for employee future benefits other than pensions based on the new CICA accounting standard for "Employee Future Benefits" which is required for fiscal years commencing January 1, 2000. Under the new policy, costs for employee future benefits other than pensions are required to be accrued over the periods in which the employees render services in return for these benefits. This change has been applied retroactively effective January 1, 1999.

The current year's expense incurred for these employee future benefits other than pensions has increased by $16 million as a result. The cumulative effect of this accounting policy change as of January 1, 1999, is an increase in the employee future benefit liability of $208 million and an increase in the unfunded liability by the same amount. As the effect of this accounting policy change was not reasonably determinable, the comparative statements have not been restated to reflect this change.

At year end 1999, the WSIB's employee future benefit obligation other than pensions was as follows:

| | |
|---|---|
| Accrued benefit obligation | $224 million |

The significant actuarial assumptions adopted to measure the WSIB's employee future benefit obligation other than pension were as follows:

| | |
|---|---|
| Discount rate | 6% |
| Health care cost trend rate | |
| -medical | 5% |
| -dental | 4% |

## 12. COMMITMENTS AND CONTINGENCIES

### Operating leases

At December 31, 1999, the WSIB was committed under non-cancellable operating leases requiring future minimum payments of approximately $17 million per year over the next 5 years and aggregating $37 million thereafter.

### Legal actions

The WSIB is party to various claims and lawsuits which are being contested. In the opinion of management, the outcome of such claims and lawsuits will not have a material effect on the WSIB.

### Bank Line of Credit

The WSIB maintains an unsecured $150 million line of credit with a commercial bank. The credit line was not utilized in 1999.

### Year 2000 Issue

The year 2000 Issue arises from computing and microchip circuitry that use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900, or some other date, resulting in errors when calculations using Year 2000 are performed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the year 2000 Issue affecting the WSIB, including those related to the efforts of its customers, suppliers, or other third parties have been fully resolved.

## 13. PENSION PLANS

The WSIB has two pension plans for its employees and safe workplace associations: the WSIB Employees' Pension Plan and the WSIB Employees' Supplementary Pension Plan.

The WSIB Employees' Pension Plan is a contributory defined benefit pension plan which provides for partially indexed pensions based on years of service and earnings rates near retirement. The investment activities and the administrative and accounting matters of the pension plan are administered by the WSIB.

An independent actuarial valuation performed as of December 31, 1999 has determined that the pension plan is in a surplus position. The accrued pension obligations of the contributory defined benefit plan reflect management's estimates of salary escalations, investment rate of return, mortality of members, terminations, and the ages at which members will retire.

As at December 31, 1999, the pension plan's funded status was as follows:

| **($ Millions)** | 1999 | 1998 |
|---|---|---|
| Pension assets | $ 1,042 | $ 962 |
| Accrued pension obligations | $ 831 | $ 701 |

The WSIB's Employees' Supplementary Pension Plan is a contributory defined benefit plan and was created to ensure that employees of the WSIB whose earnings exceed the threshold earnings for the maximum pension benefit permitted under the Income Tax Act (Canada) receive pension benefits based on their total earnings. The investment activities and the administrative and accounting matters of the supplementary pension plan are administered by the WSIB.

As at December 31, 1999, the supplementary plan's funded status was as follows:

| **($ Millions)** | 1999 | 1998 |
|---|---|---|
| Pension assets | $ 0.5 | $ 0.2 |
| Accrued pension obligations | $ 4.4 | $ 5.0 |

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# Consulting Actuaries' Report on The Valuation of the Benefits Liabilities of the Schedule 1 Insurance Fund of The Workplace Safety and Insurance Board of Ontario as at December 31, 1999

We have determined the estimated present value as at December 31, 1999 of future payments for short term disability, long term disability, labour market re-entry, survivor benefits, health care and retirement income benefits under Schedule 1 on account of accidents that occurred on or before that date to be $14,915 million. We have examined the data upon which the calculations were based and found them to be sufficient and reliable for the purposes of the valuation and consistent with the WSIB's financial statements. We consulted with the Chief Actuary in selecting appropriate assumptions and methods for the valuation. As in previous valuations, the present value does not include provision for future claims related to occupational disease or for future costs of administering the current claims.

We understand that this year the Board will be making a separate provision for the future costs of administering the current claims. WSIB management has determined the provision for future claims administration costs to be $820 million as at December 31, 1999. We believe that it is prudent and appropriate to establish a provision for the future costs of administering the current claims, although we are not able to provide an opinion with respect to the adequacy of the provision at this time.

The present value reported above includes the liability for benefits under Bill 162 which came into effect as of January 2, 1990. For the purpose of this valuation, we continue to use the same assumptions as were used in the previous valuation regarding the average percentage of permanent impairment of workers becoming eligible for compensation for non-economic loss under section 42, of the average percentage wage loss of workers becoming eligible for compensation for future loss of earnings under section 43 and of the portions of compensation for future loss of earnings under section 43 and of supplemental pensions under section 147(4) of the Act which will be continued following the reviews 24 months and 60 months after the benefits commence.

The present value also takes into account the provisions of Bill 165, which came into effect as of January 1, 1995 and the provisions of Bill 99, which came into effect as of January 1, 1998.

The valuation was based on the provisions of the Workplace Safety and Insurance Act and on the WSIB's administrative practices in effect as of January 1, 2000. Full provision has been made for potential future increases in the covered earnings ceiling and in the level of compensation as provided under the Act by using a net investment return assumption of 4% per annum with respect to fully indexed benefits and 6.5% per annum with respect to partially indexed benefits. The rates of net investment return were determined on the assumption that investment income in excess of these rates will be required to finance indexation of those benefits related to inflation. The long-term rate of general price inflation assumed in the valuation was 3% per annum, and the rate of indexation of benefits was therefore assumed to be 3% per annum for fully indexed benefits and 0.5% per annum for partially indexed benefits.

In the previous valuation, the long-term rate of general price inflation was assumed to be 4% per annum and the valuation was based on a net investment return assumption of 3% per annum with respect to fully indexed benefits and 6% per annum with respect to partially indexed benefits. For the purpose of this year's valuation, the long-term inflation assumption was reduced to 3% per annum and the net investment return assumption was increased to 4% per annum with respect to fully indexed benefits and 6.5% per annum with respect to partially indexed benefits, to better reflect the current underlying economic conditions. The effect of this change was a reduction in the liabilities of $775 million.

It was assumed that survival on Loss of Earnings benefits will follow WSIB experience for the years 1991-1996, modified after one year so that 6% of lost time accidents continue to receive benefits after two years. Following the two-year period, the renewal rate would decrease annually at an average rate of 10% until it reaches 60% six years after the date of accident.

Except as described above, the methods and assumptions employed in the valuation were consistent with those used in the previous valuation, after taking account of changes in claim patterns. A complete description of the methods and assumptions employed in the valuation will be provided in our detailed report to the Board on the valuation.

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In our opinion, the assumptions made in this valuation are appropriate, the methods employed are in accordance with sound actuarial principles and the amount of $14,915 million as at December 31, 1999 makes reasonable provision for future payments for short term disability, long term disability, labour market re-entry, survivor benefits, health care and retirement income benefits under Schedule 1 on account of accidents that occurred on or before December 31, 1999.

David A. Short, F.S.A., F.C.I.A.
Actuaries with the firm of Eckler Partners Ltd.

Jill M. Flicht, F.S.A., F.C.I.A.

March 3, 2000

Ten-Year History

Workplace Safety and Insurance Board
Ten-Year summary of the Statements of Operations and Unfunded Liability

($ millions)

| | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 |
|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | | | |
| Premiums for current year (see note below) | $ 1,707 | $ 1,722 | $ 1,886 | $ 1,917 | $ 1,953 | $ 1,864 | $ 1,969 | $ 2,171 | $ 2,505 | $ 2,596 |
| Investment | 1,065 | 997 | 849 | 711 | 593 | 499 | 521 | 453 | 450 | 440 |
| | 2,772 | 2,719 | 2,735 | 2,628 | 2,546 | 2,363 | 2,490 | 2,624 | 2,955 | 3,036 |
| **EXPENSES** | | | | | | | | | | |
| Benefit costs paid | 2,203 | 2,262 | 2,249 | 2,371 | 2,385 | 2,331 | 2,435 | 2,444 | 2,342 | 2,059 |
| Net increase (decrease) in benefit liabilities | 135 | (85) | (1,740) | 50 | (150) | (75) | 400 | 760 | 1,440 | 1,220 |
| Net increase in the Injured Workers' Retirement Fund | 59 | 52 | 48 | 49 | 49 | 29 | 30 | 14 | 2 | - |
| | 2,397 | 2,229 | 557 | 2,470 | 2,284 | 2,285 | 2,865 | 3,218 | 3,784 | 3,279 |
| Administrative and other | 387 | 336 | 341 | 321 | 339 | 331 | 343 | 347 | 343 | 323 |
| Legislated obligations | 145 | 125 | 117 | 98 | 113 | 104 | 100 | 97 | 87 | 53 |
| | 2,929 | 2,690 | 1,015 | 2,889 | 2,736 | 2,720 | 3,308 | 3,662 | 4,214 | 3,655 |
| **EXCESS/(DEFICIENCY) OF REVENUES OVER EXPENSES** | (157) | 29 | 1,720 | (261) | (190) | (357) | (818) | (1,038) | (1,259) | (619) |
| Premiums for unfunded liability (see note below) | 1,061 | 930 | 683 | 693 | 700 | 487 | 314 | 357 | - | - |
| Excess of revenues over expenses-applied to reduce the unfunded liability | 904 | 959 | 2,403 | 432 | 510 | 130 | (504) | (681) | (1,259) | (619) |
| **Unfunded Liability** beginning of year | 7,098 | 8,057 | 10,460 | 10,892 | 11,402 | 11,532 | 11,028 | 10,347 | 9,088 | 8,469 |
| Change in accounting policy | 208 | | | | | | | | | |
| **Unfunded liability** end of year | $ 6,402 | $ 7,098 | $ 8,057 | $ 10,460 | $ 10,892 | $ 11,402 | $ 11,532 | $ 11,028 | $ 10,347 | $ 9,088 |

Note: Premiums were not segregated into current and unfunded liability components for 1990 and 1991

**OTHER STATISTICS**

| | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Schedule 1** | | | | | | | | | | |
| Average rate of assessment (per $100 of payroll) | $ 2.42 | $ 2.59 | $ 2.85 | $ 3.00 | $ 3.00 | $ 3.01 | $ 2.95 | $ 3.16 | $ 3.20 | $ 3.18 |
| Total assessable payroll ($ millions) | $ 101,654 | $ 96,205 | $ 91,497 | $ 86,844 | $ 86,065 | $ 82,818 | $ 84,243 | $ 83,048 | $ 80,727 | $ 80,352 |
| Number of WSIB employees as at December 31 | 4,250 | 4,057 | 3,986 | 4,373 | 4,597 | 4,603 | 4,751 | 4,909 | 5,139 | 5,138 |
| Number of registered claims | 364,069 | 342,687 | 341,178 | 345,606 | 371,837 | 370,444 | 368,485 | 377,019 | 409,946 | 473,407 |

## Public Sector Salary Disclosure - 1999
### Workplace Safety and Insurance Board

| Name | Position | Earnings | Taxable Benefits |
|---|---|---|---|
| ABRAMS, BRENDA E. | LEGAL COUNSEL 2 | $101,611 | $178 |
| ACHAR, RAMACH ANDRA | MEDICAL CONSULTANT | $107,511 | $99 |
| ADAMO, VALERIE | VP INFO SVCS & CIO | $152,769 | $181 |
| ALLINGHAM, R | DIR RESEARCH & EVALUATION | $103,412 | $184 |
| ANSTEY, CALVIN | DIR TRANSPORTATION SCTR | $100,803 | $181 |
| ARGUE, R J | DIR APPLICATION DEV | $110,720 | $162 |
| ARONSHTAM, M | MEDICAL CONSULTANT | $112,545 | $169 |
| ARVISAIS, J. | MEDICAL CONSULTANT | $116,750 | $169 |
| BELANGER, ADELE MARIE | LEGAL COUNSEL 2 | $104,995 | $187 |
| BELL, SUSAN | DIR CCP | $107,282 | $159 |
| BISHOP, M. | MEDICAL CONSULTANT | $113,857 | $169 |
| BOGA, AMIRALI | MEDICAL CONSULTANT | $111,245 | $158 |
| BOWMAN, LESLIE | MEDICAL CONSULTANT | $122,582 | $174 |
| BROWN, ELIZABETH | LEGAL COUNSEL 2 | $104,915 | $187 |
| BURTON, NEIL | DIR CLIENT SVCS DIV | $110,106 | $186 |
| CANTLIE, GEORGE | MEDICAL CONSULTANT | $122,700 | $212 |
| CHAIN, MARYBELLE | MEDICAL CONSULTANT | $113,351 | $196 |
| CHAN, T | VP FINANCE & CFO | $169,662 | $186 |
| COLACO, C | MEDICAL CONSULTANT | $122,582 | $174 |
| COUTINHO, JUDE | ASSOC DIR/PHYSICIAN | $108,031 | $190 |
| CUDE, BEVERLEY | DIR TECHNOLODY SVCS | $113,653 | $186 |
| DAVID, LAWRENCE | MEDICAL CONSULTANT | $111,634 | $193 |
| DE DEMETER, DORRIT | MEDICAL CONSULTANT | $122,582 | $174 |
| DE DOMENICO, IVAN J. | MEDICAL CONSULTANT | $114,489 | $162 |
| DIFRANCO, JOE | SR SPEC TECHNOLOGY SVCS | $100,725 | $146 |
| DIOSO, ROSARIO | PROJECT MANAGER CSD | $104,838 | $151 |
| DJAN, P. A. | MEDICAL CONSULTANT | $105,658 | $188 |
| DOUGLAS, COLIN J. | LEGAL COUNSEL 2 | $104,930 | $187 |
| DOUGLAS, RICHARD ALEXANDER | DIR EMPLOYEE RELATIONS | $120,396 | $201 |
| DSOUZA, I | MEDICAL CONSULTANT | $108,304 | $166 |
| DUDLEY, JOHN | ASSOC DIR/PHYSICIAN | $120,160 | $137 |
| FLYNN, MIRIAM E. | LEGAL COUNSEL 2 | $103,099 | $181 |
| FRAME, J D | LEGAL COUNSEL 2 | $104,758 | $163 |
| GARG, S. K. | MEDICAL CONSULTANT | $112,438 | $199 |
| GEARY, JUDY | GM CCP & SPEC CLAIMS SVCS | $144,122 | $292 |
| GERMANSKY, MARTIN | MEDICAL CONSULTANT | $113,682 | $199 |
| GIBBS, HENRY | VP INVESTMENTS | $228,613 | $196 |
| GREGOIRE, J | CHIEF ACTUARY | $181,599 | $245 |
| HADJISKI, ANNA | MEDICAL CONSULTANT | $122,582 | $202 |
| HALL, NICK M. | DIR AUTOMOTIVE SCTR | $101,186 | $181 |
| HAWKINS, ADAM J. | DIR REALTY INVEST | $108,740 | $158 |
| HECKADON, ROBERT | ASSOC DIR/PHYSICIAN | $138,961 | $0 |
| HICKMAN, ROBERT | MEDICAL CONSULTANT | $109,871 | $193 |
| HO KIM, THU LAN | MEDICAL CONSULTANT | $106,806 | $189 |
| HO, MICHAEL | MEDICAL CONSULTANT | $122,582 | $174 |
| HOLYOKE, PAUL | GENERAL COUNSEL | $170,173 | $242 |
| HORSEMAN, BROCK C. | SR VP OPERATIONS | $257,238 | $252 |
| HUBBARD, DEAN JAMES | DIR IS SUPPORT SVCS | $101,594 | $175 |
| JOLLEY, LINDA | VP POLICY & RESEARCH | $165,679 | $234 |
| JONES, DEREK | MEDICAL CONSULTANT | $105,280 | $189 |
| KANALEC, ANDREW D. | ASSOC DIR/PHYSICIAN | $135,217 | $145 |
| KARR, A. WM. | MEDICAL CONSULTANT | $113,750 | $169 |
| KELLY, J. BRIAN | ASSOC DIR/PHYSICIAN | $140,540 | $145 |
| KOSMIDIS, E | LEGAL COUNSEL 2 | $104,995 | $187 |
| KWONG, P Y | PROJECT MANAGER CSD | $120,302 | $159 |

| | | | |
|---|---|---|---|
| LAMANNA, PAT | DIR SMALL BUSINESS | $101,948 | $161 |
| LAMOUREUX, LINDA | DIR SPECIAL INVEST'N | $128,167 | $218 |
| LESHCHYSHYN, D | DIR IND SCTR CONSTRUCTION | $102,571 | $183 |
| LEWIS, O | DIR APPLICATION DEV | $108,508 | $186 |
| LONDRY, D | DIR CORP INFORMATION CTR | $117,086 | $162 |
| LORTIE-MONETTE, FRANCINE | MEDICAL CONSULTANT | $111,261 | $96 |
| LOVELOCK, RONALD | DIR PREVENTION SVCS | $102,204 | $190 |
| LUCK, M | DIR SVCS SCTR | $102,949 | $288 |
| MACARTHUR, A | MEDICAL CONSULTANT | $122,582 | $212 |
| MACRI, JOSEPH | PROJECT MANAGER CSD | $102,792 | $157 |
| MAEHLE, WALDEMAR | MEDICAL CONSULTANT | $105,768 | $188 |
| MALAYIL, AMMINI | MEDICAL CONSULTANT | $122,582 | $174 |
| MASTRILLI, ARCANGELO | MEDICAL CONSULTANT | $112,438 | $169 |
| MCADAM, ROBERTA | DIR REVENUE AUDIT SVCS | $101,766 | $242 |
| MCDONALD, PATRICK J. | MEDICAL CONSULTANT | $106,529 | $189 |
| MCKENNA-BOOT, PATRICIA | MEDICAL CONSULTANT | $105,589 | $188 |
| MCMURTRIE, ROBERT | DIR ACCOUNTING | $109,429 | $155 |
| MITCHELL, WILLIAM | DIR APPLICATION DEV | $126,076 | $162 |
| MORDEN, DONALD LAWRENCE | VP HUMAN RESOURCES | $115,269 | $153 |
| MOULD, ROY | VP PREVENTION | $144,666 | $213 |
| NUR, N S | SR SPEC DATABASE | $112,806 | $146 |
| PAINVIN, CATHERINE | DIR CLINICAL RESOURCES | $141,069 | $185 |
| PRICHETT, B | MEDICAL CONSULTANT | $113,750 | $169 |
| ROY, MARIE | MEDICAL CONSULTANT | $118,637 | $172 |
| SCHOFIELD, MICHEL | PHYS COORD/SPEC CLINICS | $140,540 | $236 |
| SEVILLE, MICHELLE | PROJECT MANAGER CSD | $117,499 | $149 |
| SHAPIRO, G | MEDICAL CONSULTANT | $113,682 | $169 |
| SHERWIN, LINDA | MEDICAL CONSULTANT | $105,669 | $164 |
| SIMMONS, WAYNE B. | DIR BONDS & MONEY MKT | $171,402 | $181 |
| SIU, CHRISTINA | PROJECT MANAGER CSD | $102,915 | $153 |
| SLINGER, J T | DIR APPEALS | $113,054 | $192 |
| SOOKNANAN, A | PROJECT MANAGER CSD | $102,077 | $151 |
| STASILA, DAVE | BOARD AUDITOR | $119,877 | $205 |
| SUTHERLAND, DORIS | MEDICAL CONSULTANT | $122,582 | $174 |
| TARASCHUK, IHOR | MEDICAL CONSULTANT | $105,795 | $186 |
| THAKUR, RANASREE | MEDICAL CONSULTANT | $122,516 | $174 |
| THOMAS, ROY E | VP COMMUNICATIONS | $110,000 | $158 |
| THOMSON, GARRY | GM INDUSTRY SECTOR | $143,008 | $205 |
| TODOROVIC, SLAVICA | DIR BENEFITS POLICY | $105,045 | $156 |
| WALKER, JOHN | MEDICAL CONSULTANT | $113,741 | $199 |
| WEATHERBEE, WAYNE | GM SMALL BUSINESS SVCS | $143,364 | $178 |
| WELTON, I | DIR REV POLICY | $113,071 | $162 |
| WILLIAMS, DAVID | PRESIDENT & CEO | $772,400 | $463 |
| YEUNG, KA SING | SR POLICY ANALYST EPID | $103,620 | $83 |

** The amount shown as earnings in this disclosure statement may not represent the individual's actual annual rate of s required to be made public under the *Public Sector Salary Disclosure Act, 1996* reflect the amount reported to Revenue employer's T4 slip for an employee. The earnings shown in this statement may therefore include non-recurring payme retroactive pay from a reclassification or a grievance settlement or a pay-out upon retirement. The earnings shown ma the individual's annual rate of salary if the individual worked only part of the year

## LOSSES DELETED FROM THE ACCOUNTS

### (Under the *Financial Administration Act*)
### for the year ended March 31, 2000

| **Ministry** | **$** |
|---|---|
| Finance | $108,848,665.76 |
| Education & Training | $37,046,606.87 |
| Community & Social Services | $14,609,093.41 |
| Citizenship, Culture & Recreation | $4,681,260.50 |
| Municipal Affairs & Housing | $2,561,129.88 |
| Attorney General | $1,660,888.69 |
| Consumer & Commercial Relations | $986,228.27 |
| Health | $903,710.51 |
| Transportation | $646,190.57 |
| Economic Development, Trade & Tourism | $117,099.19 |
| Natural Resources | $112,670.04 |
| Agriculture, Food and Rural Affairs | $72,246.96 |
| Solicitor General & Correctional Services | $8,239.99 |
| Labour | $7,876.58 |
| **TOTAL MINISTRIES** | **$172,261,907.22** |
| Ontario Development Corporations | $1,616,646.00 |
| **TOTAL WRITE-OFFS** | **$173,878,553.22** |

# REVENUE REMISSIONS

**(Under the *Ministry of Revenue Act*)**
**granted for the year-ended March 31, 2000**

**Ministry of Finance**

**General Remissions**

A remission of Retail Sales Tax estimated to be between $15,000,000 and $20,000,000 per year was granted on admissions charged by certain theatres, including dinner theatres, with not more than 3,200 seats, for the period March 21, 2000 to March 31, 2005.